

163

REINVENTING GOVERNMENT

Y 4. B 85/3:103-12

Reinventing Government, Serial No....

HEARING
BEFORE THE
COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

HEARING HELD IN WASHINGTON, DC, OCTOBER 14, 1993

Serial No. 103-12

Printed for the use of the Committee on the Budget



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REINVENTING GOVERNMENT

THURSDAY, OCTOBER 14, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Stenholm, Beilenson, Frank, Kennelly, Price, Orton, Pomeroy, Browder, Woolsey, Kasich, McMillan, Shays, Snowe, Herger, Smith, Cox, Hobson, Lazio, Franks, Smith of Michigan, and Inglis.

Chairman SABO. The committee will come to order.

The House Committee on the Budget is in session for a hearing on the administration plan to improve the management of government.

This morning our witness is Leon Panetta, Director of the Office of Management and Budget. He is accompanied by the OMB Deputy Director for Management, Phil Lader. This afternoon we will hear from witnesses from the Office of Personnel, General Services Administration.

As a result of the National Performance Review conducted by Vice President Gore, the Clinton Administration is embarking on what may be an historic endeavor. I believe that what you are proposing is really nothing short of reinventing government, as you term it, the endeavor to make government work better and in the process, hopefully save some money.

Our thought in scheduling this hearing was to focus on the management part of the Office of Management and Budget, in connection with achieving the goals established in the National Performance Review. That will remain our primary focus. But we also need you to put on your budget hat long enough to straighten out what may be some misunderstandings about the savings to be achieved.

When the plan was announced, the administration estimated that \$108 billion in savings would result from the reforms. Our analysis indicates that some of those savings would not be achieved until 1999, beyond the scope of the present budget. Some of the savings are mandatory, not discretionary.

And about half the remaining savings are already assumed as personnel and defense reductions in the Clinton budget. What remains is about \$37 billion in this 5-year framework.

Do you intend to use those savings to help reduce spending below the new, tighter discretionary spending caps that have since been

established, or do you intend to use them to further reduce the spending caps?

The question of savings is important, but the larger question may be, Can we make the government work better? The major business of government is delivering services to the American people. Can the government do a better job at providing those services? How will you go about it?

How many of the changes you propose are strictly administrative or managerial and do not require legislative action? How many require policy changes and probable actions by the Congress?

You have a large task in front of you. We are happy to have you here and we welcome you.

Mr. Kasich, do you want to make any opening comment?

Mr. KASICH. Thank you, Mr. Chairman.

As the Director is aware, I have been very positive in terms of the Gore National Performance Review. I would say that this revolutionary report contains, of course, a whole lot of Grace and a whole lot of Reagan and a whole lot of Bush and a whole lot of Republican committee members, and mixed in with that, some additional ideas from the Vice President.

My concern is, of course, the ability to get this done. I was visiting with my staff, and the 250,000 reduction in Federal employees I believe is the single biggest category in this proposal.

We had in our budget reducing Federal employees by 200,000. So we want to compliment you on going up another 50,000, and I think it is very doable, and it may even be politically achievable. But the second biggest one I believe is the elimination of the highway demonstration projects.

I asked my staff, Do you think there is a better chance—and I am for eliminating the highway demonstration projects, as you are—I said, Do you think there is a better chance we will eliminate the highway demonstration projects or Leon will get on this ledge and fly back to the White House with his own wings?

I think that is the problem that we have with this report. And I would say to the gentleman, we have made three efforts, one to change the World Bank, one to change the Agency for International Development, and one just recently to eliminate the ICC and fold it into the Department of Transportation, all ideas that are really synonymous with where the administration wanted to go. The ICC would save about \$40 million over 5 years.

And, of course, there is a knee jerk in favor of the status quo around here. And that gets to be very frustrating for all of us, particularly me. And I know it has been frustrating for you because when you were up here in this chair; you tried to do some things only to find out you couldn't get them done.

Now you have the bully pulpit, and the question is, are you going to stick a lot of this in the rescission package? Are you going to put this your next budget proposal? Are you going to take the fight to the committee chairmen? Are you going to fight with the Republican ranking members on the ICC amendment? I was opposed by Democrats, and they brought out all the big guns to fight that amendment, including Energy and Commerce. But the Republicans got up and gave me a pretty good shellacking, too. And we are in

an institutional fight here against this town that just wants to defend the status quo.

I want to work with you, Mr. Director, as I know all the Republicans do and I think a lot of the Democrats do, to try to enact a lot of these proposals. We are interested in how you want to get there. We know your numbers aren't right. We know these numbers aren't correct in terms of \$108 billion. But \$108 billion is better than where we have been.

I love the change agenda. We have to be sincere in wanting to promote it.

Mr. Chairman, I want to thank you for having this hearing this morning.

Chairman SABO. Welcome back, Leon.

STATEMENT OF HON. LEON E. PANETTA, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY PHIL LADER, DEPUTY DIRECTOR FOR MANAGEMENT

Mr. PANETTA. Thank you very much, Mr. Chairman, and, John. We appreciate the opportunity to appear before this committee. I am joined by Phil Lader, my deputy at the Office of Management and Budget in charge of management issues. The two of us hope to address both questions you have as well as present to you a sense of how we view the National Performance Review and how we can try to get it accomplished.

I have asked that my statement be made a part of the record, and if I can just summarize it.

Chairman SABO. We will put the entire statement in the record.

Mr. PANETTA. First of all, the goal of the National Performance Review was to provide the American people with something all of us strive to do in our jobs, which is to make government more efficient, more effective, more responsive to the people it is supposed to serve, to make it work better and cost less.

Public confidence with regards to government is not very good. All of us experience it when we deal with people. You deal with your constituents and you sense the concerns about trust in government. So there is really a trust deficit.

All of us have a responsibility to prove to the American people that their hard-earned tax dollars are in fact not only respected but are being used in a way that serves them best.

The National Performance Review came about when President Clinton asked the Vice President to conduct a very intensive review within government to look at how the government works. The Vice President organized a team of very experienced Federal employees from all corners of government as well as from the private sector to look at issues involving budget, procurement and personnel. He took the time to speak to a huge number of employees at every major agency, conducted meetings at a number of the key agencies throughout this town, spoke with organizations, business leaders, State and local officials.

So it was a very comprehensive review over that 6 months. And I can attest to that. Phil can attest to that as well. It was a very in-depth effort that went on every day from morning to evening, and it was very intensive.

The Vice President also asked all Cabinet members to develop reinvention teams within their departments and agencies so they too could begin to experiment on ways to improve how their departments and agencies work. Literally thousands of employees joined in that effort.

The report itself focuses on how government should work. We did not take on the issue of what government should do. The Vice President wanted to assume that whatever policies are in place, whatever role both Congress and the President decide government should play, the issue was how effectively or ineffectively is it doing that job.

We spend most of the time debating policy issues and not focusing enough on how government implements that policy. As the report itself states, "If the vehicle designed to carry out policy is broken, new policies won't take us anywhere. If the car won't run, it hardly matters where we point it; we simply will not get there." And I think that is the fact. We can make all the policy changes we want, we can change health care, we can change housing, we can change a number of policies, but if the basic system is not working effectively, it isn't going to happen. That was our primary concern. We have got to look at the basic system itself.

The key recommendations were summarized in the report. I will just summarize them very briefly.

The main focus was to cut red tape, the huge amount of bureaucracy and red tape associated with a lot of what government does.

We wanted to streamline the budget process. I have been an advocate of biennial budgets. We could put this on a 2-year process, so we could spend more time doing oversight both in the administration and in the Congress.

This year-to-year budget process very frankly is chaotic. It is crisis oriented. Right now a number of appropriations bills haven't been done, but we in the administration are already working with departments and agencies to prepare for the 1995 budget.

It is not a good process. If we could extend this over 2 years, give us some time to look forward, for oversight, that would be a better approach. So biennial budgeting is one of the primary recommendations.

In addition to that, we want to decentralize personnel policy by reducing the time it takes to terminate Federal managers and employees for cause. This is a horrendous problem in the government. When we see people that are not doing the job and are not capable of doing the job, our hands are tied in the effort to get at those individuals. We have got to be able to replace them more quickly than we do now. That requires personnel changes. That is not easy to do. We understand that. But that needs to be done.

We also need to streamline procurement. Phil can speak to that. You know the problems involved in procurement. We have put so many requirements into the procurement policy that the average businessman looks at the huge amount of red tape and bureaucracy associated with doing government business and says: It is not worth it. We have got to reduce that burden. We have proposals in procurement reform to implement that.

Putting customers first: It is essential that we understand that the role of government is not for the bureaucrats to serve them-

selves; it is for government to serve people and put them first. And too often, as all of us know—and I speak from experience in the time I was in Congress—most of my casework was the result of government not doing its job. People get frustrated in dealing with the government. When they can't find satisfaction at the Social Security Office or when they can't find satisfaction with the IRS or with the Immigration Service or whatever agency, they have to go to the congressional office, because something has broken down in the process. They do not walk into your offices because government has done its job. They walk into your offices because government has failed to do its job. So we need to stress the importance of looking at people and how we can better serve people.

We need to give employees more power at the local level. Too often we assign responsibility at the Washington level and we do not give enough flexibility to regional heads, to the regional directors, to the local officials, to be able to make decisions at that level. Hold them responsible, put their backs to the fire if they make mistakes, but give them authority to make decisions at the local level.

Lastly, cutting back to basics, which means we need to consolidate agencies where we can to avoid the duplication.

We need to provide the President with additional rescission powers in the revised line-item veto proposal. It has passed the House and still is being held in the Senate.

And we need to improve things like debt collection at the Federal level. We do not do a very good job of getting funds back to the Federal Treasury.

Let me address, if I can, the budget perspective of the report. As you know, as the Chairman said, we are facing some very tough discretionary goals over these next 5 years.

The reconciliation bill put into place a hard freeze for the next 5 years. We have not seen that in the past. Every year discretionary spending goes up by inflation plus. Now, we are facing a hard freeze. That includes every key area under the discretionary side, whether it is defense, transportation, research and development, education, health research—you know all the elements of discretionary spending. We have got to hold those at a hard freeze for the next 5 years.

To implement that I have sent out a directive to agencies and departments that they have almost a 10 percent reduction if they are going to provide some money for investments and meet the targets. So we are looking at some very tough goals.

I think the National Performance Review recommendations will help both the President and the Congress to meet those caps. We ought to keep that in mind as we discuss the area of savings.

On the savings issue, let me refer to the chart here on the left, to summarize what progress we are making with regards to the \$108 billion that we have in the report.

The estimate is that we can achieve \$108 billion in savings over 5 years. Let me summarize that situation.

The first is streamlining the bureaucracy. That comes down to the personnel changes. We are looking at about \$40.4 billion of savings in that area alone. I think that is a solid number. It is based on reducing the government by 252,000 Federal employees.

As a result of the President's Executive Order early in January, we have already begun to implement 100,000 of that reduction by 1995. We are currently in the process of that, so the \$26 billion you see there represents the ongoing effort to implement the first 100,000 in reduction. You have got an additional 152,000 that were built into the National Performance Review recommendations.

A good chunk of that, I might point out, is in the defense area. Almost \$18 billion of that is going to come out of defense; \$8 billion is coming out of the domestic side. On the remaining part of that \$40 billion, we intend to lock that into the 1995 budget, so that we hope to achieve the entire 252,000 both with the efforts that are ongoing plus the incorporation of those targets in the 1995 budget.

We have asked the agencies and departments to come back to OMB by December 1 to tell us how they will implement those changes. It is not going to be easy to do, as all of you know, but nevertheless we think that we can streamline the government by a 12 percent reduction.

We are looking right now at total civilian employees in the government of 2.1 million. We think we can bring the number slightly below 2 million over the next 5 years. There is no reason we can't do it. The private sector has had to do it time and time again. There is no reason the Federal Government can't do it. If we implement the improvements in budget, procurement, the other areas we care about, we think that is achievable.

The second area involves agency-specific recommendations. That is \$36 billion over 5 years. These are very specific savings proposals, many of which you have seen in this committee time and time and time again, as we deal with budgets.

For example, wool and mohair, eliminating that program, eliminating the honey program, dealing with streamlining of the Agriculture Department. The first \$12 billion—that is an estimate right now—represents what we are trying to build into the October package that we will submit to you. We are going to provide a core of those savings proposals in the package we submit in October. Those involve very specific and scoreable savings both by OMB and CBO, and as I said, represent many of the savings consolidation proposals you have seen time and time again. We intend to incorporate those in the proposal.

The rest, to meet the \$36 billion, we will also include in the 1995 budget. So we will pick up the balance of these. For example, just to show you why we need some time on some of these proposals, we are working on a major modification of the crop insurance program. That takes time. We think it needs to be done.

Frankly, we think we need to modify the whole disaster assistance program. That is another point made in the NPR recommendations. That is going to take some time to do, but we will incorporate that proposal in the 1995 budget.

The next part involves the \$22.5 billion largely in procurement reforms. We spend a tremendous amount of money in procurement at the Federal level, particularly at the Defense Department. If we implement a proposal that lifts the target from \$25,000 to \$100,000 where we can waive some of the requirements imposed, we know can achieve some significant savings.

We have taken a very conservative estimate of what we think we can get on savings here. We can save at least 5 percent. Many have said that is really underestimating the level of savings we can get. Some have said we can get as high as 10 or 15 percent savings. We took what we thought was a conservative number of 5 percent. That represents the procurement savings.

The \$16 billion, I might tell you right now, is in the bottom-up review of the Defense Department, because they feel they can achieve \$16 billion in savings as part of the bottom-up review just for procurement reforms.

Procurement reform will be a centerpiece of the October package. That has to be done before we are going even to begin to think about how we improve the way government works.

The last part is information technology, largely, and that is about \$5.4 billion combined with about \$3.3 billion. It is a combination of information technology and trying to reduce administrative cost.

Let me just give you an example of what we are talking about on information technology. We are talking about trying to consolidate through technology some of the things we do at the Federal level. Why can't we transfer the benefits through technology, in other words, pay people simply without having to cut a check, but simply transfer that electronically to their accounts, whether it is Social Security or any other area? We can cut down on the administrative cost, we can cut down on the amount of bureaucracy involved with these programs if we can do that.

We are entering the technology world. All of you know that. Government is still far behind. We are still doing business as if we were at the beginning of the century. We have got to bring that kind of technology to the Federal Government.

Those are the key areas. We are going to recommend, incidentally, a technology bill as part of the 1995 budget as well to implement those goals.

Let me now turn to how we implement these recommendations. A large measure can be implemented through Executive Orders and Presidential directives. We have implemented a number of Executive Orders. We have done about 14.

Let me just mention some of the Executive Orders that the President has signed. He signed an Executive Order on regulatory coordination, tried to simplify the review of regulations at the Federal level. This is, as all of you know, a horrendous process in which once you pass laws, we then have the regulatory process at the Federal level. Sometimes this involves hundreds upon hundreds upon hundreds of regulations that have to be reviewed.

We are trying to simplify that process. Many of these do not have to be reviewed to try to save time. Some of these have to be very carefully reviewed in terms of their cost implications. And this revised format gives us the ability, I think, to expedite the review of the regulations in a way that does look at cost-effectiveness.

The administrator at OMB has a primary responsibility for implementing that. We have sent out a directive, the President has sent an Executive Order saying to the agencies and departments: Eliminate one-half of your internal regulations. There is no reason why each agency and department can't reduce by 50 percent their internal regulations.

I am not talking about the external regulations. I am just talking about what goes from the Secretaries to their departments and constitutes, in many instances, a pile of internal regulations that can stand anywhere from 10 to 12 inches tall. There is no reason why that cannot be cut in half. That was the directive sent out to each of them.

There have been other Executive Orders issued. I have listed some of them in the testimony.

The second area I wanted to mention is the defense bottom-up review, only because the Defense Department has done one heck of a job at reviewing how they are going to achieve savings. Secretary Aspin released that report a few weeks ago. Included in that bottom-up review, as I said, are some of the savings with regards to procurement as well as personnel.

The third area there is the October package. We are preparing that. We hope to introduce it sometime around October 25 or 26. That package will be made up essentially of three parts.

The first are the systemic changes that we think need to take place within government. We will have a major procurement reform proposal as part of that. The Senate is working on a procurement reform proposal; the House has moved a smaller version of the procurement reform. We think we can move a major procurement reform proposal as part of this October package.

Secondly, on personnel, to do the 252,000, we have got to provide some buyout programs to provide an incentive for early retirement for Federal employees. We intend to include a package along those lines. There will be other personnel reforms included in that package as well.

Debt collection: Again, there are areas in the Federal Government where we literally do no debt collection and people wonder why we have the size deficit that we have. On debt collection, we need to improve the methods to go out and get some of the money that is owed the Federal Government.

There are some instances where we do literally nothing. We send people a letter and then have no follow-up whatsoever. And some of these are touchy areas. But on the other hand, we have got to do strong debt collection. So those proposals will be included.

Year-end spending: All of us know the problem when you get to the end of the year and an agency or department that is scared to death if they wind up with additional funds, that if they don't spend those funds, they are going to take a hit in the next budget. It is the wrong incentive. So the goal here is to provide some reward rather than penalize those who achieve savings within an agency or department at the year end. So there will be a proposal with regards to year-end funding as well.

The second part will involve specific savings. And there, as I said, we have some proposals that are programmatic savings that you have seen before. Not only in agriculture, we are talking about trying to consolidate and eliminate some programs where we can. We are talking about improving enforcement. We are talking about streamlining offices.

We would like to include streamlining on agriculture in this package as well to reduce the field offices. As you know, that is a major area where we can achieve savings. We know it is controver-

sial in some areas, but we need to do that. Streamlining the HUD offices is another major area we would like to include in this package.

And lastly, as I said, we think a number of consolidations need to be achieved. The last part of the package will be a rescission package. We intend to review all the appropriations bills and to include recommendations for rescissions that we would recommend to the Congress. Some of the rescissions would implement proposals that are contained in the National Performance Review, where we say, for example, we ought to eliminate programs, we will then rescind the funding for that program in the first year. That will be part of the package as well.

I can't tell you how big that package will be on rescissions, because we have only completed two of the appropriations bills, and the remaining appropriations bills will be completed over the next 2 weeks, and that will give us a chance to review those and determine what that rescission package will be.

So that would be the October package that we will present, and our hope is that we pass that October package before the end of this session.

The last piece of implementing it is the 1995 budget process, and again, I had mentioned the problems of achieving the targets that have been contained in reconciliation. A lot of these savings will have to be used by the departments and agencies just to meet the caps that have been established under the budget plan. That doesn't mean that they won't happen. They will happen. But they will happen in a way that will give these departments and agencies the opportunity to meet some very severe targets that have been established by the Congress.

The administration supports those targets. We are with you in achieving those targets, but we have got to do it in a way that gives the agencies and departments some flexibility.

For example, in the education department, we think there are some 40 programs that can be consolidated in the Education Department. We recommended many of those in the budget we submitted this year. What we would like to do is to see those programs consolidated so that the Secretary of Education can use some of that money then to fund some of the programs, for example, Goals 2000 that you are now currently working with on the floor of the House.

I touched on personnel reductions in terms of the 252,000. We are also implementing the performance review proposal, S. 20. That is a major effort to set performance standards for the Federal Government, and Phil is involved with that.

Mr. Chairman, as I said, in conclusion here, we are embarked upon a huge task at the Federal level, not only to make government work better, but also to show the government that we know how to run this business, and that we know how to run it in a way that best serves the people for whom we are responsible.

We would like to show the American people that we can make government work better for them. That is really what reinventing government is all about.

We want to provide savings so that we can fund some of the investments we care about, so we can meet the targets and discre-

tionary totals, and indeed some of these savings can be used for deficit reduction. It is all of those goals. So this is a major effort.

We thank you for your attention to these issues. We have to work with all of you, on both the Democratic and Republican side, to get this done.

If I could yield very briefly to Phil to answer some of the specific questions on management before we go to the questions.

[The prepared statement of Hon. Leon E. Panetta follows:]

PREPARED STATEMENT OF HON. LEON E. PANETTA, DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

I am pleased to be here before the House Budget Committee to discuss the National Performance Review.

The goal of the National Performance Review is to provide the American people with a more effective, efficient and responsive government—a government that works better and costs less. Public confidence in the Federal government is at all time lows—there is a tremendous trust deficit. We must prove to the American people that their hard earned tax dollars will be treated with respect.

The National Performance Review began on March 3, 1993 when President Clinton asked Vice-President Gore to conduct an intensive six-month review of how the Federal government works. The Vice-President organized a team of experienced Federal employees from all corners of government to examine both agencies and cross-cutting systems, such as budgeting, procurement and personnel. He spoke with employees at every major agency and sought the views of hundreds of organizations, business leaders and state and local officials.

The President also asked all cabinet members to create Reinvention Teams to lead transformations at their departments, and Reinvention Laboratories, to begin experimenting with new ways of doing business. Thousands of Federal employees joined these two efforts.

The NPR report focuses primarily on how government should work, not on what it should do. It presents recommendations to improve performance in areas where policymakers have already decided government should play a role. We spend most of our time debating policy issues, but as the NPR report states: "If the vehicle designed to carry out policy is broken, new policies won't take us anywhere. If the car won't run, it hardly matters where we point it; we won't get there."

The NPR report describes roughly 100 recommendations, while hundreds more are listed at the end of the report. By implementing these recommendations, I believe we can make fundamental changes in the performance of the Federal government. Without fundamental change public confidence in government will continue to spiral downward.

KEY RECOMMENDATIONS

Let me summarize some of the key recommendations of the Report:

Cutting Red Tape

Streamline the budget process through biennial budgets. Decentralize personnel policy by reducing the time it takes to terminate Federal managers and employees for cause. Streamline procurement by allowing agencies to make purchases under \$100,000 through simplified procedures. Reorient the Inspectors General by focusing them on evaluating management control systems. Reform the regulatory system by reducing internal regulations and reducing the burden of congressionally mandated reports. Assist state and local governments by limiting the use of unfunded mandates.

Putting Customers First

Set customer service standards and develop one-stop shopping proposals. Make government agencies such as the GPO and GSA compete with private enterprise. Explore making the air traffic control system into a private corporation. Encourage market-based approaches to reduce pollution.

Empowering Employees to Get Results

Decentralize the decision making power to increase the span of a manager's control. Hold Federal employees accountable by developing performance agreements and clarifying the objectives of Federal programs. Give Federal workers the tools they need to do their job through better training and by improving information tech-

nology. Enhance the quality of work by providing greater equal opportunity and diversity. Form a labor-management partnership through the National Partnership Council to devise personnel policy. Improve leadership through the President's Management Council.

Cutting Back to Basics

Eliminate unnecessary spending in a number of Federal agencies through consolidation and provide the President with broader rescission powers. Collect more fees for Federal services and improve Federal debt collection. Improve productivity by allowing agencies to create innovation funds. Cut costs by developing an electronic benefits program.

A BUDGET PERSPECTIVE

Scarce Resources and Spending Caps

As you know, the Federal government faces an unprecedented limit on spending over the next five years. Based on the reconciliation bill passed last summer, the new discretionary spending caps keep spending at or below FY 1993 levels for five years. Since FY 1969 discretionary spending has increased every year, so we are facing very tight caps on discretionary spending. This component of the Federal budget includes defense, transportation, research and development, education, health research and many of the basic functions of government. The National Performance Review recommendations will help the President and the Congress meet these caps through additional reductions in spending and more efficient and targeted use of scarce resources to priority investments.

Elements of Savings

I would like to refer you to page 157 of the National Performance review report and walk you through each element of the \$108 billion in savings over five years (FY 1995 to FY 1999) to give you our view on how we see implementation of the NPR being carried out.

Streamlining the Bureaucracy through Reengineering—\$40.4 billion over five years: As you know, the goal of the NPR is achieve a reduction in Federal personnel by 252,000 by the end of FY 1999 as various NPR reforms are put in place. We believe that a reduction of 100,000 is assured based on the President's executive order issued last January. That will achieve \$26 billion in savings over the next five years. Plans to implement the remaining personnel reduction are being worked on by Federal agencies and we expect to present a stream of personnel reductions consistent with those plans in the Administration's FY 1995 budget.

Changes to Individual Agencies—\$36.4 billion over five years: These proposals constitute a variety of program reforms in Federal agencies. The Administration hopes to present to Congress in the near future a legislative package incorporating approximately \$10 to \$12 billion of changes in agency budgets. The remainder of the proposals we hope to address in the FY 1995 budget and through administrative action.

Reinventing Federal Procurement—\$22.5 billion over five years: The defense portion of these reductions, \$16 billion, is already assumed in Secretary Aspin's "bottom-up review" of the military budget. Discussions are currently underway between the Administration and the Senate Governmental Affairs and House Government Operations Committees on a procurement package to be introduced in the next few weeks.

Reengineering Through Information Technology—\$5.4 billion: These savings are to be achieved through administrative actions which will consolidate and standardize information infrastructure. We estimate that \$1.0 billion of these savings can be achieved through an electronic benefits initiative currently being developed by the Administration. Also, about one half of the savings here are to be achieved in the defense budget.

Reducing Intergovernmental Administrative Costs—\$3.3 billion over five years: The NPR has proposed that the Federal government's reporting requirements be simplified and reduced. State and local governments could accept a fee for service option in place of existing cost reimbursement procedures in return for greater administrative flexibility.

IMPLEMENTING THE NPR

Let me discuss some of the highlights of what action has been taken so far and the Administration's plans for further implementation of the National Performance Review recommendations, they include: Executive Orders and Presidential Directives; an "October package" including NPR spending reduction proposals, rescis-

sions, and procurement reform; FY 1995 budget; Personnel; Government Performance and Results Act; and President's Management Council.

Executive Orders and Other Presidential Directives

The Administration has issued a number of executive orders and Presidential directives in its effort to implement the National Performance Review.

Improve Interagency Regulatory Coordination (Executive Order): On September 30 this order was issued to clarify regulatory policy in the Clinton Administration. It provides for yearly meetings between the Vice-President, regulatory advisors and agency heads to coordinate regulatory efforts. The Vice-President will review and recommend resolution of conflicts between agencies and OIRA, the Office of Information and Regulatory Affairs. The OIRA Administrator is directed to convene a Regulatory Working Group with agency representatives to analyze regulatory issues and will meet quarterly with representatives of local governments to discuss Federal regulations with significant local government impact. Agencies must submit to OIRA by December 30, 1993, programs to review existing regulations to make them more efficient and less burdensome. Agencies will designate Regulatory Policy Officers by November 30, 1993 to oversee regulatory actions and ensure that they conform to the President's policies. OIRA will only review significant regulatory actions and will complete the review within strict time limits.

Eliminate One-Half of Internal Regulations (Executive Order): On September 11 Executive Branch agencies were ordered to undertake elimination of 50% of their internal management regulations within three years. OMB is to issue instructions implementing this order, including necessary exemptions for the delivery of essential services and compliance with the law.

Establish Enterprise Board for Empowerment (Presidential Memo): The President's Community Enterprise Board, chaired by the Vice-President, was established on September 9 to coordinate Federal programs available to help distressed communities. The heads of the major agencies will be identifying programs which assist communities in an effort to direct funds for economic development in distressed communities.

Create Customer Service Programs (Executive Order): On September 11 agencies which provide significant services to the public were ordered to survey their customers and report on the surveys by March 1994. The information gathered on customer satisfaction will be used to judge management performance and allocate agency resources. Agencies will be publishing customer service plans by September 1994 which identify the private sector standards which the agencies will be using to evaluate customer service.

Expand Authority of Trade Promotion Coordinating Committee (Executive Order): Chaired by the Secretary of Commerce, the Trade Promotion Coordinating Committee was created on September 30 to coordinate trade promotion for the U.S., provide a central source of information for the business community, and ensure better delivery of Federal government services on foreign trade to U.S. businesses.

National Partnership Council (Executive Order): On October 1 this Council of government and labor officials was created to advise the President on labor-management relations in the Executive branch. The Council has been directed to propose to the President by January 1994 the statutory changes necessary to achieve needed labor-management partnerships, reform the General Schedule classification system and create a flexible hiring system.

Eliminate President's Intelligence Oversight Board (Executive Order): On September 13 the Intelligence Oversight Board was subsumed under the President's Intelligence Advisory Board as a standing committee. The IOB will now assume the duties of the President's Intelligence Oversight Board.

October Package

As you know, the Administration is planning to send to the Congress a package of savings proposals later this month. This package will consist of ideas generated by Vice-President Gore's National Performance Review, rescissions of FY 1994 appropriations bills, and procurement reform legislation. We will be choosing items from the NPR which we think can be enacted in an extremely fast time frame. The package should be seen in terms of a downpayment rather than the end of legislative action on the NPR. It is hoped that such a package will pass the Congress before adjournment.

FY 1995 Budget

We hope to have the bulk of the NPR proposals reflected in the President's FY 1995 budget. In fact many of the proposals in the NPR will involve complex legislation which will take the Administration some time to develop. Other proposals can only be presented properly in the context of an entire budget, for example the pro-

posals to reduce education programs is intended to be offset with an increase in other, higher priority education programs.

Personnel

As you know, the 12% reduction in the Federal workforce—a reduction of 252,000 workers—proposed by the National Performance Review is a very ambitious goal. The President issued an Executive Order last January requiring a reduction of 100,000 workers by the end of FY 1995. The NPR proposes to increase that number by 152,000 by the end of FY 1999. OMB will be encouraging the agencies to refer to National Performance Review recommendations in developing their personnel plan, including closing or consolidating field offices; reducing management layering; fuller use of new technology; reduction in regulation and red tape in such areas as personnel, procurement, budgeting, and internal management; and enhanced employee training and cross-training. We also plan to present specific five-year personnel levels in the President's FY 1995 budget.

Also, the Administration has sent to Congress a "buyout" proposal offering Voluntary Separation Incentive Payments of as much as \$25,000 to selected workers who leave government service. In the House the bill has been introduced as H.R. 3218 and I understand hearings are being held on the measure this week. This legislation is critical to our effort to reduce the number of personnel in government and it is our hope that it can be passed as soon as possible.

Government Performance and Results Act, S. 20

Signed into law by the President last August, S. 20 is an important step toward measuring the performance of Federal programs. OMB will soon designate a set of agency pilot projects which will experiment with methods of measuring government performance. I want to congratulate the Congress for moving this legislation so quickly. As you know, one of the frustrating aspects of making budget decisions is that we do not have good information on how Federal programs work. The Government Performance and Results Act will eventually help us make more informed choices about budget priorities.

President's Management Council

On October 1 the President created the President's Management Council. Headed by my Deputy Director for Management Phil Lader, the Council will be retooling management systems throughout the Executive Branch. Each agency head will be designating a Chief Operating Officer with agency-wide management authority. The Council will be engaged in 1) personnel downsizing, 2) developing plans to reduce field offices, 3) improving training for Federal employees, 4) implementing the performance measures required by the Government Performance and Results Act, and 5) where appropriate implementing other Administrative proposals from the National Performance Review.

Deficit Reduction and Investment

An obvious question is what NPR savings can be used to reduce the deficit. First, I would hope the Committee and the Congress look at the NPR as a way to make government perform better, it is not first and foremost a deficit reduction exercise. Our priority must be to better use the resources we now have, to give the taxpayer his or her money's worth—this is the focus of the NPR.

Second, to the extent we have savings identified by the NPR we should ask whether they should be used for investments. For example, there are billions of dollars of cuts identified in the NPR for education, but they are specifically reserved to offset increases in higher priority education programs.

Third, it is essential that a portion of these savings be used to meet the discretionary caps under the budget. Cuts will have to be identified to reach those caps. Some of the NPR cuts may have to be used for that purpose. You also have special cases like defense which has already assumed procurement and personnel reductions in its bottom-up review. Fourth, as we move beyond these issues there may be opportunities to dedicate NPR proposals passed by Congress to additional deficit reduction.

We should proceed carefully and rationally on this question.

Again, I appreciate the chance to discuss the National Performance Review with the Budget Committee. Implementing the NPR will be an tremendous task, but I think the rewards to the American people will be considerable. I look forward to working with you as the next steps are taken on the National Performance Review.

Chairman SABO. If we could, very briefly, because I know members are anxious to ask questions.

Mr. LADER. Let me reflect, if I might, on some of these basic management questions. First, I should say that some 20 years ago the Deputy Director at OMB in the Nixon Administration when he left office wrote a book entitled *The Hidden Tragedy of Washington*. And his thesis, if you remember it, was that in this town everybody loves to talk politics. Most people are interested in policy, but very few people care very much about management.

So the interest that your committee and Congress is showing now in many of these management reforms is very, very much appreciated.

The Vice President's methodology, as reflected in my response to your questions, was such that rather than as in past commissions focusing on how boxes could be moved on the organization chart, or rather than find ways to slash programs, where there may or may not have been congressional support to change or remove those programs, his goal was to focus on changing fundamental systems.

The observation there is this. Everyday life in America has changed dramatically. When we go to our grocery stores today, we leave with scanners and bar codes. When we buy a toothbrush, within a matter of hours inventories thousands of miles away are changed to replace that toothbrush. When individuals move capital to banks to invest, it is done with touch-tone phones.

The underlying theme to each of my responses to your questions is this. Everyday life in America has been changed in this past decade because there has been a profound management and technological revolution which has transformed everyday life. But that management and technological revolution has left our Federal Government virtually untouched.

So everything that the Director was just addressing is tied together by the common themes of management and technology and how to seek to apply it.

You asked first about performance measures. One of the building blocks, foundation stones of this entire management initiative by our administration is the Government Performance and Results Act. Its origin, as you well know, is thoroughly bipartisan. None of us, no party has a monopoly on wisdom on these questions. There has been an obsession with input in the Federal Government, oftentimes with ignorance about results and output.

Measurement, in response to your question, is not a precise science. OMB is helping coordinate the efforts by the agencies themselves under the Government Performance and Results Act to develop some 10 pilots to be selected in this next month, but to have it implemented over the next 5 years. So we do not move immediately to this concept of performance budgeting, but essentially have some pilots that are outcome based, such as health care measures, and others which are output based, the number of vaccinations, for example.

And as we review these pilot programs, they will be implemented. There will be some encouragement and some occasional scolding as we move forward, moving more towards performance measures.

Your second question, how will these personnel and procurement reforms really change the management of Federal programs, well,

there are two essential issues here. People—people and personnel—are policy: how your programs are implemented. And processes, Maitland, in the history of English common law, said to us that our legal system has come to us through the interstices of legal procedure.

It is policy which determines how taxpayers are served. The key is, how do we change performance? We deal with individuals. We are dealing with 2.1 million civilian employees of the Federal Government. How we downsize that, a phenomenon that has been commonplace in the private sector, is a matter that the Director has addressed already. But the administration is firmly committed to the 252,000 position reduction over this next 5 years.

As a concomitant of that, procurement reform. Last year there were more than 20 million individual procurement actions, contracts or amendments, \$200 billion of procurement of goods and services which occurred at more than 2,500 locations around the world.

What we are seeking to do here is to uncomplicate this system—where to buy a brownie or sell a brownie to the Federal Government, a company has to comply with 26 pages of specifications. The themes here are to take advantage of what is already there: the commercial products, more commercial practices, to raise the threshold from \$25,000 to \$100,000, to use electronic commerce to a higher degree, to use technology to, if you will, bring procurement into the 1990's or the 21st century.

But the underlying theme in response to your question as to the fundamental change in procurement law is to move from the concept of low bid to best value; to take into consideration past history of the outside contractor; to take into consideration what real benefit to the taxpayer that particular good or service will provide.

Your next question led from that: How do we deal with the phenomenon of contractors, the increased use of contractors? Well, under the caps of the Budget Enforcement Act, there is a finite amount of dollars to be spent. So it would not be possible, as the Federal agencies downsize the number of Federal employees, simply to shift all of those responsibilities to outside contractors. There simply will not be the dollars.

But we are seeking in the use of outside contractors for outsourcing that there be a better balance of determining where the private sector can provide special expertise or special services or focus services which the government employee cannot—balanced, of course, with strong attention to what are inherently governmental functions, so we do not have agencies that are essentially a hollow government.

OMB will be closely monitoring this very delicate mix. But the theme here again is management discretion by the individual agency, let managers make those decisions of the balance of what is done inside, what is done outside.

Consequently, when you ask about debt collection, there are some startling statistics, Mr. Chairman, I would like to share with you. At the end of 1992, Federal receivables, both tax and nontax, amounted to \$312 billion, of which \$110 billion were delinquent.

I will just summarize very quickly some of the legislative mechanisms we are considering to put forth to you to allow agencies to

retain a portion of the money they collect from delinquent debts to pay for credit management and debt collection: to lift restrictions on the IRS and Customs Service, parts of HHS and the use of private check agencies; and to require that civil monetary penalties be adjusted for inflation on a regular basis every 4 years.

In other words, there has to be a continuing process of reengineering, not simply this one-shot focus on personnel or procurement reform, but constant focus on this.

In conclusion, in response to your questions the staff submitted to us, I would simply like to mention that coming from the private sector, I was as cynical as anyone about the term "reinventing government," but I am very satisfied that it serves a galvanizing impact to focus on how, not just by a 6-month study, not just one for 8 or 16 years, but how this government can be reinvented by continuing commitment to processes and people who work in this government.

Chairman SABO. Thank you.

Mr. Kasich.

Mr. KASICH. Thank you, Mr. Chairman.

First of all, for the people who watch this hearing and the press that covers it, this idea that we have this terrible hard freeze in all discretionary programs, Mr. Panetta, is a distortion of the facts. We have a hard freeze on discretionary spending because you are cutting \$127 billion out of defense. The nondefense areas are going up about 16 percent.

So it is true that we have a hard freeze in the aggregate, but we do not have a hard freeze on all these programs you mentioned. We have a devastating cut to national security and an increase in the other programs.

I know Mr. Shays has done some numbers, and I think he will share them with you, but we should not attempt to create something that doesn't exist.

I want to compliment you on your testimony. I have a couple of questions. One is, I want to know how we get you to come out and support amendments to reinvent government. I am coming out in favor of what you are doing, and I want to know how you are going to come out in favor of what I am doing.

For example, take folding the ICC into the Department of Transportation. We asked the Secretary of Transportation to tell us how many additional staff he would need if we eliminated the ICC lobbyists, the PR offices, and some others, and incorporated the rest of the ICC into DOT. And we did get a pretty good chunk of Democrats to vote for that, maybe 50 or 60, but that is because I browbeat them when they come on the floor. The White House must be willing to support some of our reasonable proposals. I would like you to respond to that.

Secondly, this is an award I got in 1986. It is a taco shell. In 1986 I introduced the bill that forced the Pentagon to buy off the shelf, and I used three examples. One was a taco shell; it was about 40 pages worth of specs. One was a whistle where they actually told you how you blow into the whistle. You emit a steady stream of air which vibrates the ball in the whistle and it emits a high-pitched sound. They have specs for underwear, what to buy, all these specs.

Carl Levin introduced the bill and we passed it, and we got an award. The business community took this taco and laminated it. It was called the Talented Advocacy of Commercial Objects Award, TACO, and it was designed to say we should buy off the shelf, we shouldn't have all these regulations and everything else.

This is 1993, and we are still not buying off the shelf. We passed a law up here. We have a million Executive Orders, and they are still not doing it. Every administration comes up here and proposes all these giant savings they are going to get out of procurement reform, and my message is this: You have to go over there and be serious about this, and you have got to fire people if they are not going to do it.

I had fights with the Bush people because they didn't want to do it, or they said they wanted to do it and somehow the lawyers said, You can't do it, and then they worry if you buy underwear off the shelf, they are going to buy 10,000 pairs of underwear that are designed to fit somebody who weighs 50 pounds, and then the bureaucrat gets killed because they made a bad purchase, and that is why we have the specs in place.

You have to be very serious about what you are going to cut. I talked a couple years ago to Barney Frank on the area of debt collection. The State of New York is supposed to refer all these people who don't pay their student loans back. It is a technical way in which you get credit for referring but not collecting.

We have been chasing debt collection around since 1981. And just because you do Executive Orders doesn't mean you are going to get any savings. Just because you propose procurement reform doesn't mean you are going to get it unless, in my judgment, you do two things: You penalize and reward people if they do a good job, and you have to cut the programs and force them to do what it is you want to do.

We had a bill that has passed the House here three times that gave Federal employees, if they come up with a good idea that saved a million dollars, they would get a percentage of the savings. Bounty hunting is what we tried to create. They have this in the private sector as well.

I think you need to take a look at cash awards for people who truly do a good job and pump up the program. I know there is a program there, but if you walk around in agencies and departments, people will know about it. The only way you are going to get bureaucrats to challenge the bureaucratic system is to make it worth their while.

But the bottom line is, how are you going to get the bureaucracy to implement the procurement reforms? What are your plans, not just the Executive Orders? You put out all these Executive Orders to reduce paperwork in half. I bet when you come here next year, Mr. Director, you are not going to have reduced that paperwork possibly at all, because they will get the memo and put it in their desk. What are you going to do to put some teeth in these more nebulous areas?

In terms of demonstration projects and things like that, you just cut the spending. But are you prepared to put some real teeth in implementing these very noble goals?

Mr. PANETTA. First of all, on the October package and the amendments that you and others are working with, I want to assure you that I and the administration are here not only to brief you fully on what we would recommend as part of the October package, but also to work with you in looking at amendments on both sides.

I know that Tim Penny has indicated an interest in offering some amendments. I know you are working with him as well on some of those proposals.

We would want to look at those and see whether we could work together on some of those proposals. We know the leadership is committed to allowing some of the amendments that would be attached to this package. We are talking about an unprecedented approach.

This package will be made up from a number of proposals. I don't want to call it reconciliation, because it will not be done under the reconciliation rules. Nevertheless, it is going to be a bill that will include a number of different jurisdictions.

The Speaker assured us that he will send those bills to the different committees and have them report back within a set timeframe so that we can incorporate them in the Rules Committee and take it to the floor. And that is the process we need to work on.

In doing that, I am willing to look at ways to improve that effort. On the procurement side, I will let Phil speak to this as well.

You are right, this is an area that people have gone at time and time and time again. Part of the key here, within the government, had always been that ultimately we will do business the same way we have always done business. That has to change.

I can't be here next year before you and not be able to show you concrete results with regard to not only reduction in internal regulations but also how we have implemented these procurement savings so we have some real savings to point to.

When I issue a directive to the agencies and departments, I don't intend that to be just for show. We are going to back it up through the budget, for example. If, in fact, they have not produced the kind of changes they are supposed to make, we will recommend appropriate reductions. We are not going to reward people who don't implement these requirements.

Mr. KASICH. If we were to offer an amendment to the Transportation Appropriations bill to eliminate highway demonstration projects and Mr. Shays and Ms. Snowe and I would offer that amendment, could we get a letter from you supporting us that I could read on the House floor to the membership?

Mr. PANETTA. We recommended elimination of demonstration projects in the budget early this year. We intend to move toward formula distribution programs.

Mr. KASICH. If I were to call you, would you write a letter saying, I support the efforts of these Republicans to eliminate the highway demonstration projects?

Mr. PANETTA. We support the concept that you would be advancing at that point. As to whether or not we would be support—

Mr. KASICH. If I take your proposal and offer an amendment to eliminate demonstration projects, you would then send a letter saying we support this amendment, wouldn't you?

Mr. PANETTA. John, you have to wait and see what is in our package first before you decide whether you will do an amendment. We will provide leadership on that issue.

Chairman SABO. Mr. Frank.

Mr. FRANK. I am very pleased to see this package because I think it does an important intellectual task that has not been done before, for instance when we saw the Grace Commission report.

That was, some of the previous reports and some of the books that have been published, lumped together policy changes and gains from efficiency. Obviously, they are both valid; but when they all get lumped together, I think it confuses the situation.

I think you have done a very good job here of isolating savings we hope to accomplish, because obviously nobody can be sure about the exact dollar that are efficiency based that doesn't require a lot of policy changes.

That doesn't mean we should not also be talking about policy changes. I would hope that there would be support for doing those on a two-step process. The more controversial a change by definition the harder it is to accomplish it. There is a great deal to be done by focusing on these areas of efficiency where I think there will be a lot of agreement. I think that is all to the good.

I had questions on the numbers. I apologize, I was a little later. The package that you are going to send in this month is how much for the 5-year period in savings?

Mr. PANETTA. Again, obviously we are still refining the package.

Mr. FRANK. There is a lot of that going around.

Mr. PANETTA. A lot of that. On the first proposal, which would be the procurement savings, we have estimated the savings on procurement reform at a 5 percent savings on procurement over 5 years.

We had estimated that at about \$22.5 or \$23 billion. We think that CBO may score that at less just because of the scorekeeping mechanisms that are used with regard to procurement reforms. But we think that, in the very least, we can pick up that much.

As to what it would actually be scored at in the package, we don't anticipate that it is going to be at the \$22.5 or \$23 billion level. It may be less than that. What that will be, whether it is three or four or five or more than that, we don't know.

The second part of the package is the savings proposals. We expect that that package will be somewhere around \$12 billion in terms of specific programmatic savings over 5 years.

The third piece will be rescissions. I can't give you a number on that.

Mr. FRANK. The rescissions will be based on what?

Is that just money we didn't need? Or will there be policy choices in rescissions?

Mr. PANETTA. Both. The primary test on the rescissions will be if we recommend the elimination of a program as a result of the NPR recommendations, for example wool and mohair, then we will rescind the money for 1994.

Mr. FRANK. This will be coming out of the Gore Report? There will be some, although not all of the Gore Report?

Mr. PANETTA. That is correct.

Mr. FRANK. The total that you are shooting for—or you are not sure yet?

Mr. PANETTA. I don't know. I think the estimate may be somewhere between 12 and 15 overall.

Mr. FRANK. For a 5-year period.

As I said, I think there is a lot to be said for doing it in a two-step process. If we do go beyond it—and Mr. Kasich made the point about how the cuts were being allocated between defense and nondefense—I think events of the past few months have shown that, in fact, we can cut defense much more because it is clear to me that what we are now voting for is a lot more defense than people want to see used.

It seems to me that we have increased savings we can do there. If we get beyond that—and I would hope that this would be a chance—we had a very close vote in the House on the manned space station. I would find it impossible to vote for that program and make cuts in other programs because of the need to do further reductions and left the space program where it is, which is not in space but here costing us a lots of money.

But I would think there is a lot to be said for a two-step process. One is to deal with these that are relatively noncontroversial. And I think you have accomplished a great deal of savings that are noncontroversial. And then we can have our kind of contest about the controversial area.

I think that after recent months people might want to relook at the military. I think the amount of military spending we have committed ourselves to, in fact, assumes a greater degree of international military activity than it turns out people want to engage in right now.

Voting to have all those troops but becoming very unhappy any time anybody suggests they should be used anywhere seems to me an inconsistency that can be resolved by reducing the number.

When you focus more on what are our real basic national security needs are and factor in the apparent resistance to various types of intervention that has now come, it seems to me it makes sense to make some further reductions there. That is up to us now, procedurally, to get a chance to do it.

Back on the package, the procurement savings and others, these will be both dollar figures and legislative changes. Will the package include legislative changes that are necessary?

Mr. PANETTA. There will be very specific legislative changes that will be presented because if, in fact, you are going to reform the system and you have to increase some of these thresholds to allow for greater competition on the requirements, you have to do that legislatively.

Mr. FRANK. To the extent you are eliminating programs, there will be legislation for that. Will this be a self-contained package? If we passed the package, we would have amended the legislation and at the same time rescinded the authority?

Mr. PANETTA. That is right. This is not a budget resolution.

Mr. FRANK. This is one big thing that will do everything. I am glad to see that. I assume some of my friends, particularly on the other side, will be opposed to it because it sounds to me like it will be procedurally somewhat irregular, by the norms. That is, it will

be one bills that will have appropriations action in the form of rescission, it will have legislation, it will have authorization, it will be all mixed up.

The Rules Committee will apparently be giving us a chance to vote on this. My assumption is that, at this date, it will not be able to go to each committee. The assumption is it will not go to each committee; am I correct?

Mr. PANETTA. Our hope is that the Speaker, under his authority, can refer the individual pieces to the committee but with a time certain to report back.

Mr. FRANK. What, about 1½ or 2 hours? I think it will be a very pro forma reference to the committee. When are you hoping to get the bill passed?

Mr. PANETTA. Our hope is to get it passed before the Congress adjourns.

Mr. FRANK. When will it come in?

Mr. PANETTA. We are going to be presenting it about October 25 or 26.

Mr. FRANK. Then we would probably have less than a month to do it all if everything works well.

Ms. SLAUGHTER [presiding]. Mr. Frank, your time has expired.

Mr. FRANK. Thank you. Could I have just 10 seconds to say that I am looking forward to supporting it. But I did want to note that it will violate most of the procedural norms that many of my colleagues swear fealty to most of the time.

I hope we will note, when they vote for this, that apparently that insistence on all these procedural regularities is not always required.

Thank you, Madam Chair. You are tough.

Ms. SLAUGHTER. Mr. McMillan.

Mr. McMILLAN. Thank you, Madam Chair.

I would suggest that violating procedural norms ought to be the first order of reinventing government. Then maybe we will get something done. I came to Congress some time ago out of management, one place that sold stuff off the shelf, retail food, where the best operated on a 1 percent after-tax profit margin in competition with equally effective management organizations.

I can appreciate the importance of good goals and good evaluation of both the program and management. One of the problems that I have encountered—and I think we all encounter around here—is what we spend all our time and energy on, debating, particularly in the budget committee, whether we are going to increase the funding of something by 3 percent or 4 percent or 5 percent or in the case of Medicaid, 16 percent or in the case of Medicare, 12 percent, instead of evaluating the basic 100 percent that we are already spending.

What we practice around here is incremental add-on government. I think that is true of both Democrats and Republicans in the administration and in Congress. The oversight of the committees of the Congress is focused on incremental additions and new programs, not the evaluation of what is in place versus stated clear goals of what we seek to achieve.

Had we had that, for example, I think in any of the major entitlement programs, we long ago would have addressed things that

were being done and money being spent that were not intended in the original legislation.

So I think you are right on target, as has been pointed out by the gentleman from Ohio, many of these ideas have echoed around here for a long time and have been brought forth by both Democrats and Republicans and by Democrat and Republican administrations, the two of you who work with Mr. Panetta on the Budget Committee for 2 or 3 years. I know of his dedication and capacity to deal with the problems.

I know Mr. Lader from a long time back. He comes from my neck of the woods. I know of his energy, capacity, and management skills. I think you are both in a unique position to provide us with leadership. I am, for one, as I think most on this side of the aisle are, prepared to cooperate in that effort.

I really have two questions I would like to ask. Maybe you can't answer them today. But I think a lot of the problems that we face here today require a bipartisan solution.

It is apparent it is going to be a necessity in health care reform. It is going to be an absolute essential in the passage of NAFTA just to point out two examples. I wish we had that in the budget process.

Those on our side of the aisle who offered amendments, many of which represent the proposed changes that you would make in what you are talking about today, were just rejected because what drives this place is politics and not policy.

We need to turn it around so that policy is driving politics. I think that is what you are trying to do. In order to get there, you are going to have to, though, get bipartisan support.

I would like to ask the specific question, and you can answer now or later: How do you propose to build that kind of bipartisan support at the outset, perhaps through the formation of a bipartisan task force in the Congress, to address issues of process reform?

We can disagree on what policy should be, but get to the process, whatever the policies are, the management and evaluation of those policies are conducted around this place in a way that is in the public interest. That would be my first question.

The second is a little more specific. I think the President, in introducing this statement that a number of these things he had the power to do; and I think you have reiterated that here today. I believe he made the statement that, whatever he can do without congressional action, he will do, within a certain specified time. I believe it was 60 days.

I would like to ask if you propose to include in his rescission package those changes and to lay them out so that we have can immediately implement those things and begin to count the results?

Those are the two basic questions I would like to put to Mr. Panetta.

MR. PANETTA. Let me respond to the first one and ask Phil to quickly respond to your second question. On the first one, let me assure you that I agree with what you said with regard to a bipartisan effort.

I regret that the budget battle was not one in which we could join on a bipartisan basis for whatever reasons. But clearly we need to establish a bipartisan support for this kind of package.

I think most of the elements you will see in the October package are elements that you and many on your side have advocated. And I think there is a real possibility that this can be a bipartisan effort.

My intention is to brief the leadership on both sides with regard to the elements of this package and try to solicit support from both sides because, to do this package in the fast timeframe we are talking about—which means to introduce the package around the last week in October and then be able to have a 10-day referral to the committees and then back to the Rules Committee—the only way we are going to get these savings adopted is if we have bipartisan support. Otherwise there will be chaos.

So this is one where the very nature of what we are trying to do is going to demand that we work together on this.

I will yield to Phil.

Mr. LADER. The second question regarding Presidential actions, there have been seven directives or executive orders the President has issued already: as mentioned previously, elimination of one half of internal regulations over a 3-year period, setting customer service standards as you did in the food retail business, recognizing that taxpayer support is based on their being treated more like customers and laying out specifics for that.

Change in the regulatory review process, a labor management partnership counsel has been established so that management in the government, the unions, and labor can have a discussion to create a new definition of Federal employment.

The streamlining of bureaucracy executive order calls for a 12 percent reduction in the work force over 5 years. A community enterprise board was established, and the President's management council was established to help implement these reforms.

Coming back to this October package, tying it back to your first question of is there real bipartisanship: The elements of the National Performance Review which are removing costs and cutting programs included in the October package are those which the President, Vice President, and the Director have felt are most likely to have strong bipartisan support.

We agree with your notion that we need bipartisan support. We hope the October package will be the first evidence of that.

Chairman SABO. Mr. Price.

Mr. PRICE. Thank you.

I am glad to have you here. I appreciate your testimony. I want to ask a question that gives you a chance to reflect more broadly on the 1995 budget preparation process that is now underway.

You say a good many of your specific proposals will be in the 1995 proposals coming from the administration. I want to know how this affects, more generally, the 1995 budget preparation now underway at OMB in consultation with the agencies?

More broadly, how does that process differ this year from past years in light of the goals that you have outlined in the Performance Review and the administration's programmatic goals?

We are operating, as you have said, under very tight spending caps. Our mandate is both to spend less but also to spend what we do spend more intelligently, more strategically, in ways that pay off for our economic future.

It won't do simply to ratchet everything down indiscriminately. If we continue trying to do everything albeit at a reduced level we may end up doing nothing very well. So we need to redirect as well as to reduce spending. We will need to eliminate or greatly reduce some programs, some functions in order to make serious investments in others. The administration has indicated its determination to do this, to lead as we reorder priorities.

I think it is fair to say this reordering is not going to bubble up automatically from executive agencies. It is not going to bubble up automatically from congressional committees, authorizing or appropriating.

It will require strong hands, at the White House and OMB. It will require a different kind of budget review.

That is my question: How is the 1995 budget preparation going? How is it different from the way the process has worked in the past years? And how are you going to make it an effective instrument of change?

Mr. PANETTA. As I indicated in my remarks, everyone has their perspective on the discretionary side.

But I can tell you that what happened in the reconciliation bill was that, as a result of the agreement on the targets that were established on the discretionary side, \$58 billion was taken off the President's 5-year budget with regard to the investments that the President cared about.

Admittedly, a large part of it was defense savings; but it left us, overall, with a hard freeze on discretionary. We don't have walls anymore with regard to the appropriations process. When that number is presented to the appropriations committee, the administration, or to this committee when you do the budget resolution, you are operating under a total hard freeze.

Now we are going to have to make some tough decisions. It is not just a game where you can say "cut everything across the board." Many members here support additional funding for WIC and have traditionally. Many members here support funding for Head Start and have traditionally. Many members support additional funds for crime, for the FBI, for law enforcement, or for drug enforcement, for highways. This is not a partisan issue. We have had a lot of support on the Republican side in many of these areas. I don't hear people saying we ought to just scale back on WIC or we ought to cut Head Start or we ought to cut some of these other programs. Our effort is to try to assign priorities here.

If we intend to provide additional funding for WIC or Head Start, we have to cut a lot of other programs to be able to do that. That is the nature of the process.

In the past we have always not only provided inflation but inflation-plus on the discretionary side. For all of the talk during the Republican administrations, the fact is that discretionary spending went up these last few years. Now we are talking about a very tight cap with regards to the overall budget.

So my directions to the departments and to the agencies are: You have to meet these targets. We have provided some very hard targets. We have an October 1 reporting date. We are getting those budgets in right now. They have to meet these caps and at the same time try to fund some of the President's investments.

For example, in the EPA, if they want to fund better enforcement and fund some of the environmental protection, they have to scale back within their own agency and then we have to find some funds elsewhere.

So there is a lot of crosscutting going on as well. We are going through that right now. It is not an easy process, but it is necessary. Reinventing government helps us because we can say to an agency, if you can pick up procurement savings and personnel savings and savings with regard to consolidation of programs, it gives you a little more flexibility to assign some savings to the investments you want to do.

So the process works hand in hand. What we are doing here is giving the departments the flexibility to meet those 1995 caps. It is going to be tough. None of us should underestimate the tough choices that will have to be made.

Not every member here will be able to fund his or her favorite programs because we are going to have to cut back on those programs to fund the investments many of us care about. It will be a very tough process.

Mr. LADER. Let me add a footnote. You asked how this budget process differs from past years.

You see our President, Vice President, and Director have a passionate interest in management issues such as streamlining of the bureaucracy, procurement reform, and debt collection. These issues are being integrated very thoroughly in the budget process, in the agency reviews and the planning of their budgets for the coming year.

Mr. PANETTA. FTE reductions alone, we have already started getting a huge number of appeals on the FTE reductions.

But the FTE reductions are reflecting what we have committed to, which is a reduction of 150,000 in Federal employees. It is 100,000 between now and 1995.

Some of the heads of the departments are saying, how are we going to be able to enforce the environmental laws; how are we going to be able to enforce the law at the Justice Department based on these FTE reductions?

Our answer is look at the reforms on budgeting, procurement, management. We are going to find significant savings there with regard to personnel.

So tremendous cooperation has to go on if we are going to reach these targets. These are tough targets. This is probably the largest personnel reduction in the public or private sector in this country. But we have to do it.

Chairman SABO. Mr. Price.

Mr. PRICE. The overall estimate that I have seen is that the 5 year hard freeze in discretionary spending amounts on the average to something like a 13 percent cut in current services; is that correct?

Is that right?

Mr. PANETTA. Yes, that is correct.

Mr. PRICE. You are saying, in some services, the cut will be a good deal deeper than that if we are going to make room for strategic investments in high priority areas?

Mr. PANETTA. That is right.

Chairman SABO. Mr. Shays.

Mr. SHAYS. Thank you. Leon, I want to first acknowledge the fact that when you were invited to speak the last time, the Chairman was not aware that there would be the committee interest, and so you were not able to stay as long, and some of us on this side of the aisle were not very pleased about it. We understand that you stayed as long as you had been requested and we appreciate your being here now to answer our questions.

I also want to say that I considered you, as a Member of the House, one of the finest people to serve here along with the Chairman and enjoyed serving under you as Chairman and enjoy our present Chairman and his fairness.

I want to say that because I am not pleased with some of your answers, and I don't want you to misunderstand why. When Mr. Kasich asked you the question, admittedly he kind of embellished it a bit, but when he asked you the question, if we put forward an amendment that you are proposing, that we may have proposed in the past, like eliminating the demonstration projects, would you write a letter in support of it, you didn't really say, yes. That gets a little frustrating.

Mr. PANETTA. Would you write a letter to me supporting the package we are submitting in October?

Mr. SHAYS. Not only that, I will vote for it in spite of the fact that I am sure there are parts of it I don't like. But I commit to you that you have my vote. The reason you have my vote is I know there are going to be parts I don't like, but I believe this Nation needs to be saved, and this is the kind of thing we need to do. So you have my vote.

Mr. PANETTA. Believe me, if both of us can work together on that, I am more than happy to support amendments the Republicans and the Democrats will be considering.

Mr. SHAYS. Thank you. A few things I would like to ask you. The \$106 billion that we are projected has not yet been scored by CBO. We have heard rumors that they will not score it that high. Obviously they will have the specifics, but the specifics are not out.

What I would like to focus in on is, let's assume the 106 is scoreable and is going to be a savings, how much of it is actually new and additional, and not in the President's budget, and how much will be an add-on to the overall deficit reduction package the administration has brought forward?

Mr. PANETTA. As I pointed out, the \$108 billion.

Mr. SHAYS. I am sorry, \$108 billion?

Mr. PANETTA. The initial part there on streamlining is basically the personnel reduction. That 100,000 is in the process of being implemented as part of the 1994 budget and part of the 1995 budget based on the executive order from the President to reduce 100,000 employees.

There is an additional 152,000 that we will have to accomplish. We have been able because the defense reductions exceeded our targets and can exceed our targets for 1995.

So \$26 billion of that is ongoing right now. A good part of that, as I indicated, is in defense savings.

Mr. SHAYS. Maybe you misunderstood my question or I am not hearing your answer. The \$108 billion is the projected savings expressed by the Vice President.

Mr. PANETTA. Over 5 years, that is correct.

Mr. SHAYS. How much of that was savings that the administration already counted on to have their budget economic plan? And how much is additional beyond what the President already counted on when he brought forward his economic plan?

Mr. PANETTA. That is what I am explaining.

Mr. SHAYS. Can you give me some numbers on it?

Mr. PANETTA. That is what I am explaining. The \$26 billion is the amount that reflects the 100,000. That is \$18 billion out of defense plus an additional \$8 billion that we have on the civilian side. That is needed to implement the 100,000.

We have already identified the 100,000 in the budget plan. The \$12 billion is going to be in the October package, so exclude that. The \$16 billion on procurement is in the bottom-up review in defense, because a good portion of their savings to meet the targets in the budget are in procurement savings.

So if you are looking at what we have on track right now, I would say about \$26 billion and \$16 billion are in the pipeline and about \$66 billion is the additional effort we need both in the October package and in the 1995 budget.

Mr. SHAYS. What you are telling me is what you are trying to implement now without having congressional action.

Mr. PANETTA. It is both.

Mr. SHAYS. Of the 108 billion, how much is additional savings above and beyond what the President put forward in his economic plan?

Mr. PANETTA. I just gave you the numbers. I am not sure whether you are not hearing me or whether I have to restate it.

Twenty-six billion and \$16 billion is already built into an effort ongoing now with regard to our budget.

Mr. SHAYS. Is that in the President's—

Mr. PANETTA. Sixty-six billion is not.

Mr. SHAYS. You said it, and I didn't understand it.

Of the \$66 billion, is that deficit reduction or is it going to be for new spending?

Mr. PANETTA. It ought to be dedicated to a number of areas.

One is whether we need some of that to achieve the caps in the 1995 budget. We think we need some of that flexibility to meet those caps.

Secondly, some of it ought to go for some of the investments. For example, if the crime bill involves another \$3 billion in expenditures, we should use that for that kind of investment, because we still have to operate within the caps. Part of it can go for deficit reduction as well.

So we really need to look at all those areas if we develop a package. I don't think the entire amount can be assigned to deficit reduction because some will be needed to implement the policies we have put in place.

Mr. SHAYS. What I hear you saying, though, is there is a little miscellaneous that gives some cause for concern. Some of this is going to be used for the caps which are part of the economic plan

of the President. We are not really seeing an additional \$66 billion for future investment or deficit reduction.

I would hope that you would seek to have most of that go to deficit reduction. The thing that concerns me about the President's plan is that under his plan the national debt will still go up 41 percent. Percentage wise that is smaller than in past years, but we are one such a higher base, it is going to go up \$1.8 trillion. I think it is in your best interest and the President's best interest to encourage this Congress to make more cuts and have it be for more deficit reduction.

To conclude, we are seeing the interest on the national debt. It is true that we are seeing defense spending in real terms go down \$42 billion and we are seeing domestic spending go up \$42 billion, and so we are still locked into the \$526 billion we spend on discretionary now and we will spend \$526 billion 5 years from now.

But we are shifting 42 from defense to domestic spending. We are seeing interest on the national debt go up \$208 billion to \$272 billion. That is a \$64 billion increase, just the interest on the national debt because of this colossal increase in our national debt.

I hope you looked at some of this as deficit reduction.

Mr. PANETTA. In response, we will recommend in the October package that a majority of that go for deficit reduction. We would like to have some of that assigned for some targeted investments such as crime. But I think the bulk of it we would like to go for deficit reduction.

In addition to that, the President and I share your concern about the size of the deficit and share your concern about interest on the deficit. That is the reason we proposed the \$500 billion deficit reduction package that was adopted by the Congress. That was acknowledged to be the first step. There are other steps that have to be taken.

We hope we will have your cooperation in making these efforts.

Mr. SHAYS. It was intended to be the President's 5-year plan. I think we do need to augment it. I don't think \$10 billion is enough. I think you should be on my back and on the Democrats' back to cut more.

Thank you.

Chairman SABO. Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Thank you, Mr. Panetta, for being here and I thank you for committing yourself time and time again to making sure we stay under those caps.

By your saying that and having C-SPAN being here, my people at home understand why there are certain things I just can not do. I have to bring you back to a more local situation. That is one of the reasons I came early this morning, to be sure I was here and didn't miss you.

Connecticut has a unique situation. Geographically, we are placed between two large standard metropolitan statistical areas, New York and Boston. As a result, we are divided up into statistical blocks. So when you are talking about pay adjustment, you can have a senior law enforcement officer working a job with another junior member who may be earning more than the senior

member because of pay adjustment. You had the same situation in your district, as I recall, at one time.

I and my staff have been trying to work with OPM on this. I don't think they can understand how difficult this can make recruiting and still have people work in an atmosphere of cooperation.

That is why I am asking you today: How will the current locality pay system be affected by the proposal we have? Will this propose new pay structures or will we continually have to deal with this parochial way of looking at pay adjustments as I have had to and you had to when you were in Congress?

Mr. PANETTA. Let me respond to your concerns. Your concerns are shared by other members. As a consequence of the Treasury-Postal bill, which I believe is still moving through the Congress, the recommendation is that while a freeze would be imposed with regard to pay hikes, that locality pay would proceed to be implemented for the next fiscal year. So the locality pay you are concerned about would be provided for those employees.

Mrs. KENNELLY. But the situation will remain as it is today?

Mr. PANETTA. This is the first year. It will be implemented so you will see additional pay for people in your area based on the cost of living problems they are facing.

Mrs. KENNELLY. We have some in New Haven making 16 percent more than those in Hartford. I know this is nitty-gritty, but I bring it up to you because you had to live with it yourself, and you know what it is like to go home and face this.

Could I work with your staff on this?

Mr. PANETTA. I think there is good news. We would be glad to provide a letter to you describing how it will impact your particular area.

Mrs. KENNELLY. Thank you. I appreciate being with you here this morning. I look forward to working with you on this reinventing government.

Chairman SABO. Let me indicate to members that we have a previous question vote on the rule. So we have a few minutes left.

What is your timeframe?

Mr. PANETTA. My next meeting at the White House is at 1 o'clock, so I can stay here and try to pick up your additional questions.

Chairman SABO. I was hoping some members could leave and others come back; but because it is two votes, we cannot do that.

Excuse me, Mr. Herger is next on the list. Then I think we better go vote, and we will have two votes and then come back.

Just so members know, Ms. Woolsey is next on my list on the Democratic side and will be first when we come back.

Mr. Herger.

Mr. HERGER. Thank you.

Leon, it is good to have you with us. I appreciate your coming here and discussing with us the National Performance Review.

I also want to commend you and the administration and Vice President Gore for raising the issue of streamlining our government and making government cost less.

As a matter of fact, as I read your opening statement, the goal of the National Performance Review is to provide the American

people with a more effective, efficient and responsive government that works better and costs less.

We must prove to the American people that their hard-earned tax dollars will be treated with respect. I thank you for that.

It sounds like some of my campaign talks and some Republican themes, but, again, I thank you. I would like to ask a specific question if I could. Of course as they always say, the devil is in the details. My question has to do with the proposal for buyouts of Federal employees for early retirements which would cost as much as \$25,000, which I understand is a crucial part of the program.

My question is: Didn't President Clinton adopt a similar program as Governor of Arkansas in an effort to trim their State payroll back in 1988?

Would you say that that effort by President Clinton was a success?

Mr. PANETTA. I am going to yield to Phil to speak to the 25,000. I am not familiar with what happened in Arkansas.

Mr. LADER. I am acquainted with the Arkansas example only through media reports, not first-hand.

Buyouts are a commonplace practice now throughout the private sector that have been used for streamlining. The \$25,000 buyout you refer to is \$25,000 or whatever the particular benefits are, whichever is a lesser amount. It is a very targeted amount to specific locations and positions. It is not offered across the board.

It is being used as one of various tools to help accomplish the streamlining.

Mr. HERGER. You mentioned media accounts. I have here a September 7 article from the Washington Times which indicates that a year after then-Governor Bill Clinton of Arkansas's program was adopted, the State saved \$7 million in payroll taxes. However, the additional retirement costs amounted to \$13 million or an additional net \$6 million that it cost the taxpayers.

My question is: Can we be sure the Federal Government would not have the same result with this proposal?

Mr. LADER. One of the provisions the administration has put forth is that there be the retirement payment in addition to the payment for the individual. The agencies are using dollars they already have. There is no separate pool of funds being provided.

The agency knows it has to set aside the funds for that retirement annuity as well as for the buyout of the individual to safeguard specifically against the problem that you just identified.

Mr. PANETTA. The buyout is not going to be new money. They are going to have to fund these buyouts within their existing budgets.

It is another way to try to target the employees who ought to be moved out so instead of doing a cut across the board they can target individuals that can be moved to the retirement side. This is an added incentive in that effort.

Mr. HERGER. Again, I want to commend you for seeking to trim back our Federal Government and our bureaucracy. This is a worthwhile goal. My concern is how different this program is than the program that was initiated back in 1988. The same Times article further goes on to state that 1,100 Arkansas workers took the buyout; but that a year later the State payroll was reduced by only

a net of 107 employees. So, in other words, about 1,000 were rehired.

How well have you looked into this? Is your plan different? Was your proposal modeled after the 1988 program? And if it is different, how is it different?

Mr. LADER. As to the specifics in the bill the administration put forth, for every two positions that are bought out, the agency is permitted to replace only one position.

So there is one mechanism to deal with that issue. It requires, as you were very accurate in presenting, eternal vigilance, to be sure, as you establish your re-engineered process to streamline administrative processes and reduce the requirements for the number of Federal workers that does not have some slippage as a consequence. You are correct in saying one needs constant vigilance on that matter.

Mr. HERGER. I would like some assurance, and I believe the American taxpayer would too, that if we are going to offer this buyout, that it be designed very differently than the program in Arkansas was back in 1988 so we don't have a similar result.

In the article they mentioned, let me read, "Several of the State legislators state that it was a financial disaster, that it was a terrible drain on the experienced State workers." And, again, they found out that they would retire off the people with the most experience and hire new less experienced ones to replace them.

I just want you to look at it very carefully.

Chairman SABO. I think we had better run. We need to get to the roll call.

Mr. HERGER. Perhaps you can give me something on this.

Mr. PANETTA. This was not based on the Arkansas program. It came out of OPM itself as a recommendation. They felt it was a good way to incorporate that approach. I don't think it was based on whatever did or did not happen in Arkansas.

Mr. HERGER. If it is possible, will you get back to me on what the differences are?

Chairman SABO. Wally, the Director will be here this afternoon.

Mr. HERGER. Good. I will be here.

Chairman SABO. We will see you in about 10 minutes.

[Recess.]

Chairman SABO. The committee will come back to order.

Ms. Woolsey will be here shortly. Let me ask a question while she's coming, on the question of procurement.

It strikes me—I totally agree with you that our procurement system can be significantly improved. But there is also a reason why all the bureaucracy has been built into it, and that is to try and avoid mistakes. And we always have trouble in government in giving people flexibility to make mistakes, because of what happens politically when mistakes are made.

Let me use an example, not in procurement but in other programs. To me, one of the best programs that exists is the Community Development Block Grant program. It gives communities significant discretion on how to spend those funds. I think basically it works very well.

On the other hand, when we considered the stimulus package, we were bombarded all over the country, internally in the Congress

and by talk show people all over the country, because of individual decisions made by local communities, decisions we had not made at the Federal level.

Clearly, the program works much better because they have that flexibility than if we tried to detail in exact fashion what they could or couldn't do. The same problem is going to exist in procurement. Somebody is going to make a mistake. Then there will be an uproar in the media, in the Congress, and we will have a new rule to prevent that mistake from occurring again.

I suspect fundamentally that is how the system has been built: Somebody made a mistake so we pass a new law. Frankly, I think the administration has passed many more regulations than we have passed law. So this thing has sort of built itself.

How do you deal with the reality in the political system, which is different than the private sector, of people who make a mistake?

Mr. PANETTA. You have raised the same question I keep raising in inner circles on this as well, which is the requirements here were not established out of thin air; they are built on laws, and oftentimes are put in place because there was some abuse someplace somewhere, somehow, that needed to be addressed or created a headline and suddenly Congress reacted and did something to try to target that.

Chairman SABO. Just so we are equal, the administration acted with regulations.

Mr. PANETTA. Yes, it is both sides. I think the problem, though, is that when we subject all of these contracts to these kinds of requirements, we really wind up hurting ourselves in the process.

As with everything, you have got to walk a balance. If we can increase the threshold, which is legitimate just based on where the economy is going, why we should stick to a \$25,000 threshold at this point. I don't know when that was last changed but I think it has been a long time. It is not that these requirements don't apply, we can cut down on the way we enforce some of those requirements now.

For example, there are countless documents that have to be filled out just to make sure that they are abiding by some of these requirements. I don't think we need a lot of those documents, to be truthful. I think we can implement a lot of this based on pledges and audits, that we could conduct random audits without all of those requirements.

We have built this huge system, and it is not to say that those basic points in law were not legitimate, but we have clogged the drain now to the point where we have got to loosen it up a little bit. I think it can be done, but you are right, it involves walking a careful balance. If any of these blow up on us, there will be another amendment or another law or another regulation enacted to protect against that.

Mr. LADER. Let me add a point, if I might. Mr. Chairman, with no malice aforethought, we have developed a system that seeks to prevent somebody from doing something bad. And that has resulted in making it virtually impossible for anybody to do anything especially good.

Chairman SABO. I agree with that.

Mr. LADER. We are seeking to have a zero-defect system which would not exist in the private marketplace as well. So one of the things we should perhaps take into account as part of the culture change in the Federal Government is to encourage greater innovation with recognition that as errors are made, there will be penalties, but there will not be hangings or lynchings at the same time.

We should recognize if individuals are going to be innovative, if they are going to try to save taxpayer dollars, there should certainly be compliance with the law, but if we move from very rigid rules more to guidelines, it will give the individual more discretion to make decisions. When occasionally there is an error, I would hope the congressional committees, as the managers, and the administration, would point out the errors, but not have a public lynching at the same time.

Chairman SABO. Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

Welcome, Mr. Secretary, and hello, Mr. Lader.

Leon, I tell everybody I sit in your seat on this committee, but we have flipped it. You were at the top as the Chairman, and I am the very least senior.

Mr. PANETTA. I used to sit in your seat once upon a time.

Ms. WOOLSEY. Thank you. That makes me feel good.

I really support the technical revolution, and not just in the administration and not just in the departments, but also for the Congress itself.

I have a question that has me bothered. In order to modernize our technology, there is going to be an initial investment. How are we going to sell that initial investment to the Congress on a bipartisan basis? I can hear the 1 minutes already about what we are spending—and it is initially going to cost money. We need to sell it to the public, and we need to sell it to our department heads because it will save money. Do you have a plan?

Mr. PANETTA. I think overall there is no question we are going to have net savings in this effort, and net savings are basically the numbers that are reflected on this chart. In the October package, whatever that number is, it is going to reflect net savings.

Any investment we make, whether it is investment in debt collection efforts or investment in technology, ultimately is going to have to be covered within the caps that we have established, and has got to produce savings in the long run. And we think that there is a net savings to be gained; otherwise, it is not worth making that short term—

Ms. WOOLSEY. Absolutely. I know. I was a business owner before I came to this body, and when I got here I was just absolutely appalled at the low-tech environment I was thrown into.

Mr. PANETTA. You should come down to the Old Executive Office Building.

Ms. WOOLSEY. I know—I have heard. But it is going to require an initial investment, and we need everybody to know that up front so they can see the nexus when it changes and we don't get beat up at the front-end for doing the right thing. That is all.

Mr. PANETTA. I think the key, and I will yield to Phil, is it is important to do a 5-year plan, because while it may involve some up-

front investment, over the 5 years, it is going to produce net savings, and people have to look at it in that context.

It is the same thing with the IRS. We used to say we needed to do better in collections by the IRS, we need to do up-front investment in people and technology to get that return back.

Mr. LADER. Let me offer some examples. There are up-front costs. This year's budget has more than \$25 billion for information technology and telecommunications expenditures. If we look at how that money can be used most smartly, to use that phrase, you recognize how in tax systems modernization the opportunities to reduce the paperwork just in producing tax returns and how your constituents will benefit from that, you look at the debt collection efforts that can be improved through the greater use of computers. If you look at electronic benefits transfer, all of these, you are very right, in the short term may have additional expense which would still come under those caps, but require reallocation of resources so that in the mid and long term we can have considerable savings.

Ms. WOOLSEY. So let's be prepared to have all that visually and out in the public so that everybody, and the Congress, understands this and sees it.

I have another area of interest, as a human resources professional. I really believe that the more we can get our Federal work force involved in cost cutting, the better these programs are going to work. And I believe we need incentives and rewards so that we can make this happen.

For example, I am concerned about the need for more defense cuts, because we are still spending more than we were in 1975 in current dollars, and the Cold War is over. I want to do a lot better than that. Our defense employees can help.

So there has to be incentives, rewards to make it worth their while to work with all of us. So let's get the Federal workers involved in this.

Mr. PANETTA. I don't think there is any question. I have often said that the most effective way to reinvent government is to have good people in place, good, qualified people in place who are dedicated to their jobs and dedicated to the kind of service that we want to provide people. But we have got to provide incentives to reward the people who do a good job.

One of the things we are looking at, as I said, is year-end funding. If we can at the very least, allow those funds either to be used for bonuses or some kind of incentives, then it creates a positive reward rather than a negative reward. That is what we need to do.

Ms. WOOLSEY. Thank you.

Chairman SABO. Mr. Cox?

Mr. COX. Thank you, Mr. Chairman.

I would like to thank both of you for staying until it looks as if the last of us is gone. I appreciated your testimony.

I think when you were talking to Mr. Shays, you all agreed that working in bipartisan fashion might be necessary if we are going to move off the dime on some of these things we have been talking about for so many years. I in my own efforts have tried to do that on the principal projects I have been involved in, chief of which is total overhaul of the budget process.

There is some of this in the National Performance Review, as you have mentioned: a look at a biennial rather than annual appropriations and authorizing cycle. But the rest of the budget process reform remains to be done. And I would hope that we could take a look at this, not just in Congress but together, OMB and the Budget Committee.

The bill right now to overhaul the whole budget process that has the most support is H.R. 2929. It has got 165 sponsors, including Charlie Stenholm—across the way, normally—myself, freshman Government Reform Task Force co-Chairs Jane Harman, Democrat from California, and Ken Calvert, a Republican, as it happens also from California; mainstream Democrat leader Tim Penny; Dick Armey, who Chairs our House Republican Conference; John Kasich, who Chairs the Republican side of this committee; and Democratic Grace Caucus Chairman Frank Pallone, Democrat from New Jersey. A lot of thoughtful people are already sponsors of this bill, and others are at least interested in it.

And rather than put you on the spot, as happened earlier, and ask you, will you support this—it is a complicated proposal—what I would like to do is ask whether or not this year we might get a statement of administration position on H.R. 2929.

Mr. PANETTA. I am not that familiar with H.R. 2929, if you can give me some of the details.

Mr. COX. It is called the Budget Process Reform Act, and it goes after a number of the abuses in the current process that seem endemic and are certainly perennial. For example, we came within one vote on this committee of banning baseline budgeting. That is a reform whose time has come. If we are within one vote on this committee, a nudge from the administration would be enough to get it across the finish line.

We would make the budget resolution a legally binding joint resolution, not a nonbinding concurrent resolution, something which has always been of interest to the executive branch. And now that the executive branch is controlled by the same party as Congress, it seems to me we can focus on the merits of the proposal rather than on the partisanship that was inherent when we had divided government.

We halt the commonplace abuse of waivers. As you know, the Budget Act is routinely waived in more than half the rules that bring legislation to the floor of the House, and we have similar problems in the other body.

These and other reforms are typical of the Budget Process Reform Act. I should just add that the way that they work together is very important. A la carte reform can accomplish some good, but comprehensive reform, in which all the pieces are looked at together, in which all the pieces fit well together, will get us much further.

I am hopeful, therefore, that we can take a look at rewriting the 1974 Budget Act. That is what H.R. 2929 is all about.

I should also add, and I think I have mentioned this to you in private conversation, that although I am a Republican and although this proposal in its earlier forms was developed in the Reagan White House, when I worked there, I could not get a statement of administration position out of our last Budget Director and

out of the Bush Administration. I just hope that doesn't happen again. I have been working on this since 1986.

Mr. PANETTA. I will be happy to review the legislation and share some thoughts with you. Some of those recommendations are ones I worked on as Chairman of the Budget Committee when we were looking at the budget process, and shared some of the same concerns.

So I am more than happy to look at that because I do think that both here as well as within the administration, we have to make some changes in the budget process if we are going to get some of these savings, but more importantly if we can try to rationalize the budget process for everyone to understand a little better.

Mr. Cox. The other project I would like to mention, I have been pursuing with Barney Frank, who was here with us earlier. Congressman Frank and I have sponsored legislation to privatize one part of the government that it seems to me is anachronistic, the National Helium Reserve.

The National Helium Reserve has drawn fire from across the country. It is very popular with journalists because it is so silly. P. J. O'Rourke called it "amazingly stupid, even by government standards." Privatizing it is not only the kind of thing that will save us money and generate funds for the taxpayer, but it also will show people that we are serious about getting rid of the truly anachronistic things in government.

As you know, it was begun in the 1920's when there was no domestic helium industry, when government therefore had to run it, and when we had to produce helium to put blimps in the air for national defense. Now we have a healthy private industry that produces 90 percent of the helium in the country and the world. And we no longer need blimps for our national defense.

Selling the National Helium Reserve's assets, depending upon how it is structured—we don't want to dump it all on the market; it would have to be accomplished over a 10-year period—by securitizing it in one form or another could produce cash up front to the government close to \$1 billion. That is material; it is worthwhile.

There was a report in U.S. News and World Report on September 13 that NPR was prepared to go after the helium reserve, but instead we only love-tapped it; in fact, we are deciding to cancel their debt rather than liquidating assets to pay it off, because the Representative from Texas who represents the helium reserve was willing to vote for the budget.

I don't know if that story is true, but it is bad PR. I would hope that—given the bipartisan sponsorship for the legislation, and given the test vote we had on the floor where over 300 Members of the House of Representatives voted to break the government monopoly on helium sales to government agencies—I would hope that this is something, too, that would lend credibility to your efforts. I hope that you might do more than the NPR recommends with the helium reserve.

Mr. PANETTA. Two points. If you can get Frank and Cox on a bill, then I think it is obviously a coalition that we need to pay attention to.

Secondly, this is an issue that we are looking at for the October package.

Mr. LADER. As much as you can focus on how one accomplishes it through securitization or whatever other means without disturbing that particular commodity market or helium market is a very important question, beyond the question there may be in Amarillo, Texas.

Mr. COX. I thank you both.

I thank the Chairman.

Chairman SABO. Well, I agree with most of your recommendations. I think you have done some incredibly important work.

Frankly, one I disagree with is the biennial budget. In many ways what we adopted this year as it related to discretionary funding, as it relates to the budget, is a 5-year budget, which we can make modifications in. The basic framework is there. But then we have to deal with the specifics on an annual basis, and we need to review the budget process on an annual basis.

Frankly, I thought one of the improvements in the process we made this year was the incorporation into the House rules and by Executive Order into Presidential action, the process of entitlement review on an annual basis. Clearly, one of the reasons, in my judgment, that was important is that it requires us to take a look at entitlements annually and make sure that if there are problems emerging, we get a handle on them before they get too large to be dealt with. I think traditionally we may have noted that the problems were emerging, but with no requirement to look at it, we simply let the problems grow until they are immense.

But I have to say that even as I read the document on reinventing government, I frankly find the biennial budget somewhat in contradiction to what the document describes as the basic problem. On page 15 it describes—there is this following statement, which I think is accurate. "Early in the year each agency estimates what it will need to run its programs in the fiscal year that begins almost 2 years later. This is like asking someone to figure out not only what they will be doing, but how much it will cost 3 years later."

I would simply observe that if we went to the biennial budget, it would substitute 3 years for the 2 years, and 4 years for the 3 years, we would literally, at the beginning of the process, be trying to figure out what something would cost 4 years later. And frankly, for something of the size and complexity of the Federal Government, my judgment is that doesn't make much sense.

I would also have to observe that, just think back a couple of years, that following the 1990 budget agreement, in 1991 our budget resolution clearly paralleled the 1990 budget agreement for the budget we adopted in 1991. And I suspect, if we were to pass the biennial budget resolution in 1991, it probably would have paralleled the 1990 budget agreement for both fiscal years 1992 and 1993. What we discovered by the time we came back in 1992, the world had changed, and in the end we adopted a budget resolution changing the defense number from the 1990 budget agreement by, as I recall, about \$15 billion in budget authority, \$10 billion in outlays, which was a significant change from what likely would have occurred a year earlier.

I suppose it would have been possible to do the same thing through rescissions. I think that would have been unlikely to occur.

I don't expect you to respond at this point. You will have other times to do that. But I frankly have very serious concern about that recommendation.

But probably even more fundamentally important than those reservations, I think that probably retaining the annual budget is fundamentally much more important for the President than it is for the Congress. And I would urge a President to be careful before giving away that authority, because the Federal budget is something more than simply a judgment on how we spend X amount of dollars. In many ways, it is a statement of fiscal policy, but it is also a statement of economic policy for the country. It is something Congress really can't do, something that the President can do. And I think it is an appropriate responsibility for the President, and a unique role the President plays in our system.

So, you know, I read some of the media speculating that somehow congressional resistance is because it has something to do with jurisdiction. My own judgment is that moving to a biennial budget is much more a modification of Presidential authority and leadership in this country, than it is modification of the congressional authority. So I would hope you would look at it very carefully before you pursue it too aggressively.

I would also have to observe that the recommendation is to move to a biennial budget in 1996, which would mean that in 1996, we would be adopting a budget for 1997 and 1998, which means the new Congress that arises in January 1997 would have some impact on fiscal policy for the last 3 months of their term of office. I doubt they would find that acceptable.

Mr. PANETTA. Mr. Chairman, just very briefly, as the author of biennial budgeting when I first came here to the Congress, I respect the concerns that have been raised. I think there is room here to find a balance.

I think that most authorizing committees operate on a multi-year basis, perhaps with the exception of defense, and I wonder whether we should have defense operate perhaps on a longer period. And then the real question comes down to the appropriation side of it, and that I think is something that we are prepared to work with.

The problem I see is that even on the annual basis, we are providing a number of supplementals. We had four supplementals this year, one way or another combining them with disaster assistance and what have you. I think on a longer period of time, there is no question we would have to update, probably in the context of a supplemental request. I just see it giving us a little more stability, probably a little more time for oversight rather than running into the kind of problems we are running into now.

I think there is room to find some compromise on this proposal so at the very least we can try to get all authorizations on a multi-year basis, so we can at least begin to stabilize that side of the ledger.

Chairman SABO. I have no quarrel with that.

To conclude, for what he says is a couple of short questions, Mr. Shays.

Mr. SHAYS. Just to say to you that I remember having the opportunity of voting for a biennial budget. I was in the State legislature and didn't take that opportunity and wish I had, because there would be tremendous opportunities to focus in on the performance side, which I think this report does a very good job of pointing out we have to do.

The one question I want to focus in on, on page 3 it says, "We have spent too much money for programs that don't work." When we analyzed this package, we really—Citizens Against Government Waste in particular only found 15 obsolete programs that would be really eliminated. It strikes me there are lots more programs in the government that besides trying to make more efficient, we could just eliminate.

One of my big criticisms of Congress and government is we tell them to do more with resources when we should be trying to tell them to do less in some areas. My request is that we also look to see what programs we can actually eliminate beyond the 15 that are in this proposal.

Mr. PANETTA. I would kiss the ground and thank God if we could eliminate 15.

Mr. SHAYS. Okay. I will, too. Thank you.

Chairman SABO. Thank you very much for your testimony, and we look forward to continuing to work with you.

[Whereupon, at 12:35 p.m., the committee was recessed, to reconvene at 2 p.m., this same day.]

Mr. FRANK [presiding]. Good afternoon. We have informed the hearing personnel, this is a continuation of the House Budget Committee hearing on the reinvention of government.

If there is no objection, I will put into the record the statement of Chairman Sabo, who has a conflicting engagement.

[The prepared statement of Hon. Martin Olav Sabo follows:]

PREPARED STATEMENT OF HON. MARTIN OLAV SABO, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MINNESOTA

Good afternoon. The House Budget Committee is in session to resume our hearing on the Administration's plan to improve the management of government. Our witnesses this afternoon are Roger Johnson, the Administrator of the General Services Administration, and Lorraine Green, the Deputy Director of the Office of Personnel Management. Welcome.

GSA and OPM are two agencies that are really down in the trenches of government management and government spending.

GSA is an independent agency with a budget of more than \$10 billion and nearly 20,000 employees. GSA sets policy for other executive branch agencies in the areas of supply and service procurement, property management, telecommunications and automatic data processing. It also manages government-wide operations in building construction, leasing and management; in motor vehicle, travel and transportation management; and in property disposal.

OPM has functions dealing with two million civilian employees of the government, and with millions of retirees, as well. It administers a merit system for federal employment that includes recruiting, examining, training and promoting people on the basis of their knowledge and skills. It has a range of programs designed to develop and encourage the effectiveness of government employees, and provides support for government program managers in their personnel management responsibilities. It also provides benefits to employees, and to retirees and their survivors.

Obviously, these two agencies will be keys to the Administration's effort to improve the management of government. And I look forward with great interest to your testimony, Mr. Johnson and Mrs. Green.

Mr. FRANK. We have with us today Roger Johnson and Lorraine Green.

If neither of my colleagues have opening statements, we will proceed.

**STATEMENT OF HON. ROGER W. JOHNSON, ADMINISTRATOR,
GENERAL SERVICES ADMINISTRATION**

Mr. JOHNSON. Thank you, Mr. Chairman.

It is an honor to be invited to talk with you today and share some of my thoughts on the administration's goal to reinvent our Federal Government with initiatives to adopt more common sense and businesslike management principles in government planning and operations, and more specifically to talk about that as it might relate to the responsibilities at the General Services Administration.

As some of you know, this is my first government job after 37 years in working in American industry, most of which was in managerial and executive positions. But I would say after my first 100 days, I am still enthusiastic about helping make the government run better and cost less.

I have spent most of those years in jobs that have dealt with opening new markets, expanding existing ones, developing new products, enhancing old ones, investing in new technologies that seem to hold promise while stopping the investment of those that no longer looked attractive. I have had to close factories and offices at the same time I opened ones with better opportunity for productivity. In the end, our companies have created thousands of jobs.

I mention this background not to impress you with my own credentials and not to open a discussion on how government ought to run like a business, because government isn't business. We each have different missions. But although they have different missions, both industrial and government processes require a lot of the same thing: planning, organizing, measuring and controlling. And when looking at the process, I am confident we can learn a lot of lessons as we look at those specifics.

In my view, the National Performance Review process and the resulting recommendations give us the best opportunity that I have seen in a long time to do just that, get beyond the broad generalities, analyze specific process and detail, and in the context of governing, make the appropriate changes that will help us run better and cost less.

This agency, GSA, has a particular unique and disproportional role in the process because almost all of its activities and responsibilities have to do with the operational side of government as opposed to the programmatic side and, of course, the National Performance Review focuses on operations.

As I mentioned earlier, the process of planning and organizing, measuring and controlling are generic in both private and public sectors. And I used these procedural pieces since I began to look at the GSA and what it might contribute.

I would like to mention here, though, that there are two other commonalities that I think run through my experience in business, that I find also in government, or needed in government, and of those first of all are that people, I find, are basically honest, they

know what to do, they want to do a good job, and they know how to get it done.

I am afraid from what I have seen, most of the laws, procedures, even the confirmation process of government, have underlying the opposite assumption. I don't think that is overt. I think it is merely the result of years and years of rules and legislation put in place to try to stop anything bad from ever happening again, when, of course, we find that isn't really possible.

So underlying a lot of the things we will be recommending, and the principles underlying the performance review, is that people are honest, they work hard and know what to do.

This has a very important implication because as we talk about empowering people, giving people more authority, letting people make judgments closer to where the action is, there is an implicit understanding there that we are going to accept some level of mistakes, honest mistakes. That I think is very fundamental. And as we go through and look at changing laws and regulations and rules, I hope we will proceed that understanding. We can change a lot of laws and regulations but, if in the end, a person who is empowered, making decisions, taking some risks, makes an honest mistake, and the first thing that happens to him, he gets criticized unduly for making that mistake, then he is no longer going to want to be empowered.

The second process I think that is underlying here is a focus on result versus process. What both of these will do, I hope, is add three new words to the Federal vocabulary, and those would be old words but words not enough used, I think: trust, faith and understanding. If we can add those three words and get them at least somewhere close to waste, fraud and abuse, which I find is now one word, I think we can make some good progress.

Failing to do that, we change rules and regulations, but we will not change much of anything substantive. As I looked at the General Services Administration as an agency and tried to come to an understanding of what it is we can contribute, what we do, how we operate, the first questions I always ask have to do with budgets, which is this committee's purview, because a budget is the financial expression of a plan. And I find in business if I can understand the financial implications of a plan, it lets me ask more sensible questions about the plan. With this information, I can test the underlying assumptions.

So I started there 100 days ago and I asked, What is our budget? People said, \$210 million for 1994. This didn't pass my test of reasonableness because I knew we employed 20,000 people, responsible for 7,500 buildings, and we acquired new ones. We purchased most nondefense products from pencils to personal computers (PCs); \$210 million didn't fit that scenario. So I asked our people to give me some detail.

What I have here is a very brief result of that analysis, which I think you will find interesting. I certainly did. The details are attached in Exhibit A to the report I submitted.

What it shows on the left is a beginning to the answer of the question. Why is it only \$210 million? The answer starts with the very top that says, well, it is \$210 million because we sell about \$10 billion worth of things to other people, \$9.966 billion.

What do we mean, we sell? Well, we transfer our costs of running buildings and buying equipment or buying pencils and paper and other things, we charge other agencies \$9.966 billion.

What do those cost us? The answer is \$5.3 billion in costs. In my language, that leaves us a margin. The margin in this case was \$4.5 billion.

What happened to that margin? Well, we used \$3.7 billion of it to run the agency, leaving a margin of about \$800 million. We used another 300 for reserves, leaving us 500. We get to 200 because the buildings we need to build this year that were approved by Congress happened to exceed the monies we already sequestered by about \$700 million, so you take the \$700 you need from the \$500 you have, and the deficit is \$200.

What about the computers? We have delegated those. Who buys them? Other people. How much did they spend? Don't know. We will find out. The answer there was roughly \$30 billion. How are we doing with those purchases? We are not sure.

Do we delegate other things? Yes, we delegate multiple-award schedules, we delegate the control of credit cards and financing.

At the far right there, you see some lists of \$15.6 billion of some of the other accounts on the prior left-hand page. You see also another \$10.7 billion and \$31.69 billion are delegated responsibilities for which we still have a responsibility.

The answer to the question of, what is GSA's budget, in terms that I can understand, is \$58 billion, because that is the number we can influence and have responsibility for, regardless of how we have accounted for it.

This leads to a first concern or issue, and that is the concept of cross-charging, of which this is an example. It has its derivation in private industry, where we try to provide divisions or parts of operating organizations with what is their own parts of the cost of the total organizations. And these are called allocations. The obvious objective here is to try to get those organizations to feel that they have a total profit-and-loss statement or total balance sheet, but hope that would get them to operate more efficiently.

This is pretty widely used in private business, but even in the most sophisticated companies—and I would suggest to some degree in our government—you can get burned in the process. This results from the cross-charging which becomes so complicated that the origins of the cost, in this analogy, buying computers, becomes confused and, in fact, lost. The origins of the costs or the responsibility for it is with this agency, but the costs are transferred elsewhere, so now there is a confusion of where the responsibility lies.

When you combine this with the fact that most people who are assigned the cost really don't have any direct control of it—rent, for example in our case, which they have no control over—you begin to get a situation where even the most sophisticated operations can start losing control, losing sight of the costs.

I am not proposing we change the budgeting process of the Federal Government in this context, but I will be using these kind of analyses when I decide or recommend where priorities are and what programs should be addressed and where the leverage is to save money. Obviously, an answer of \$58 billion in terms of where

should we go, where should we look, where can we save, is a lot different answer from \$210 million.

This gets a little exacerbated in our process because when you start with these kinds of numbers, revenues and costs included in forward budgeting, the problem tends to compound as they are escalated over time. And when you begin with some maybe non-competitive situations and begin to escalate them, you build and compound the errors and problems, and, finally, what you get is costs which are too high.

This has helped us to some degree, this approach in GSA, but too many times it just frustrates our people, and our employees are frustrated. On the other hand, I have been very pleasantly surprised to see how supportive our agency's employees are of the National Performance Review (NPR) process, and the recommendations, even though they know the NPR report will likely result in fewer people employed tomorrow than there are today.

I have gone around the country and talked with our customers in 10 regions around the Nation, and find that our customers are also very eager, in other words, in other agencies, to have these implemented. I think the frustrations with the system and their inability to do jobs they know how to do far outweigh their concern about what is going to happen in their particular job situation. I think we should be pleased with that.

So our challenge at GSA today is to focus on cost and expenses over which we have responsibility and assure we have adequate plans, measurements and controls, especially when we delegate authority, to ensure proper oversight. Delegation without plans and controls and measurements is abdication. You can't have one without the controls and measures. And we will assure as we implement these processes we will do that.

We are going to become a non-mandatory source of supplies and services. That raises some questions that you may want to pursue further. But at the core of the questions I find is, how can you delegate more things when currently we don't seem to be in control?

I would just circle back and say that we are even now looking at what is currently delegated, and maybe we should even pull some of that back as we determine what are the proper measurements and goals, before it is redelegated. Delegating does not mean giving up control at all. It does mean giving up control if you don't have measurements or plans to which they are committed.

In this agency's case, we will continue to delegate or redelegate the details of implementation at the same time we are putting a lot more emphasis on establishing plans, measurements, and controls that are meaningful. We have a number of reinvention laboratories under way today that will deal with the promise of the future, and even in these experimentations we are assuring we set proper goals and measurements.

Among the most dramatic of the proposals that we are recommending has to do with fundamentally restructuring the real property program under the Federal Buildings Fund. GSA officials are already implementing and following the National Performance Review for Federal building programs.

I would like to comment that the Deputy of the GSA, Ms. Julia Stasch, who is sitting behind me, like myself comes from business.

Her company was very successful in building Federal buildings. Julia has the point responsibility for real estate. We got here early enough in this administration to take part in the NPR proposals, and a good bit of the real estate proposals are of her creation.

The first thing we did was declare a time-out to review approximately 188 new building projects. During my confirmation hearings, I had said that this was a road I would probably take, which we did take, and the NPR supported those recommendations as well.

We called for no net new office space. The obvious logic there is if we are going to reduce 250,000 Federal jobs, in a macro sense, you probably don't need any new office space. That doesn't say we will not come to you and recommend new office space, however, but only where the savings resulting from consolidations or resulting from reductions of operating lease rates prove to have a net savings.

The regional offices in the country were directed last month to review the public building initiatives across the country, identify projects where savings could be realized and where alternative acquisition arrangements could be put in place to save the taxpayer significant money.

Included in this review, unlike office space, is an unprecedented partnership between GSA and the Administrative Office of the Courts toward comparing construction costs of new Federal court-houses. Ms. Stasch, with her expertise in that industry, moved quickly to identify leading architects and contractors in the judiciary and put them together in a blue ribbon committee. They have had two or three meetings and are very enthusiastic about the potential that this group has. This enthusiasm is not just on cutting costs, but doing so in such a manner that there is agreement with judiciary that the, quote, "majesty of justice remains, and the quality of buildings going in will still be quite sufficient as we save a great deal of money. This whole review is a rolling review.

Some people were concerned that we are going to wait for 6 months and then announce the decisions on 188 buildings. Not so. The first recommendations will probably be coming from us within the next couple of weeks.

These have been prioritized on the basis of those projects which were closer to major milestones. If one were going to design, for example, and a construction contract needed to be awarded, that kind of project would be moved to the top of the review list. Projects which had been approved but might not have been going to be started for a while would move to the bottom.

Mr. FRANK. Mr. Johnson, I am going to go vote. We will take a brief recess. When we come back, if you could review this, it will give you a chance—we are going to have some time constraints. Maybe you can review it while we are gone and finish up in about 5 minutes when we come back.

Mr. JOHNSON. Certainly, Mr. Chairman.

[Recess.]

Mr. STENHOLM [presiding]. The committee will come to order. We will resume the hearing.

Mr. Johnson, you may proceed.

Mr. JOHNSON. Thank you, Mr. Chairman.

I will conclude these remarks very quickly, as requested. I want to make two summary comments on real estate and then a couple of observations on the other major responsibility of procurement in the agency.

The rental structure, how that is charged, reconstituting the Federal Building Fund so that it reflects reserves for repairs and alterations as opposed to new capital, and we are proposing a cap that we move more towards a capital budgeting form as we plan our long-range investments and add a capital budgeting process to that of an annual operating plan and a cash outlay plan.

The procurement responsibilities of this agency are very large. I am going to speak for a couple minutes here about the technology products, not because others are not important, but because I think the leverage of technology products, computers and their associated software and hardware by far have the biggest cost implications and have the biggest implications to improved productivity for the government.

I have found that in the main the fundamental objectives, such acts as the Brooks Act, for example, are still quite applicable. The Brooks Act, I discovered, deals with everything from earthquakes to dandruff and, as you read it, it is quite an enabling piece of legislation. We have put a lot of rules and regulations around it and interpreted it to a point where it bears little resemblance, or in implementation bears little resemblance to what is really going on in the industry.

In our industry over the past several years product cycles have been reduced from years to months. Costs of computing products have dropped from 20 to 40 percent a year, while performance improvements increase at a similar rate of 20 to 40 percent per year. There is fierce competition amongst dozens of United States companies. Pricing changes, which have been downward for the whole 25 years I have been involved in them, are sometimes made daily. Pricing is very competitive and very active. Most products and software are created, and are commodities, and do not require specifications other than in functional and result terms.

Distribution channels in the industry have been revolutionized, and American industry has learned how to legally and effectively partner and thereby bring in products to markets faster at less cost. This last issue is one that is subtle but may hold the largest leverage for improvements in the Federal Government.

This is all occurring at a time when the Federal procurement rules and regulations, I believe, have been going in opposite directions, much of it driven by the assumption that companies will probably try to cheat or cut corners if left to their own devices. I do not believe that to be true. I am not naive. You need to put some controls in place. But you can't put them in place to try to stop everything bad from ever happening.

The government is now paying too much for its computing equipment. It takes too long to buy it. It is not using it effectively when it gets it, and is not getting access to the best technology in the world. That is, that provided by United States industries.

So in total, the reforms to procurement policy and practices that we will be suggesting are simply going to try to bring the fundamentals of concern and the national interest expressed in things

such as the Brooks Act, much closer to what the realities of American industry are today.

We have spent \$22 billion in 1991, and we will spend \$25 billion in 1993. This at a time when the cost of computing is coming down 20 to 40 percent. It means this year we should have twice as many computing products in the government as we had 3 years ago. In fact, if I look at the numbers we should not even be able to stand in this room, it should be so full of computers. We should be the best mechanized operation in the world. And, of course, we are not.

In addition, we are not getting access to several companies. A lot of companies in our industry don't want to do business with the government at all. It is just too complicated, costs too much and isn't worth it.

In addition to that, we are not getting access to technologies, because our rules will not let us have the kind of relationships that have led American industry to recapture a good part of the computing markets. Those companies with which we do business have tended to create separate organizations, either within their own corporation or through separate franchise distribution or reselling networks, further isolating the government from the real technologies and products of the country.

The procurement reforms we will then propose will not lose control at all. We will come to you and substitute good, solid commitments of performance and end results for measurements of detailed process.

I will conclude by just reemphasizing that at the heart of these reforms lies an assumption that most people are honest. They do work hard, they know what to do, they know better what to do than most of their managers, and we need to bring back into our government process some faith and trust and understanding.

We need to make it acceptable to make honest mistakes, don't just keep making them, and free up the tremendous power we have leveraged in the Federal worker and in American industry. Bring that to this government and give us some functional improvements in the way we work and how much it costs us.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Roger W. Johnson follows:]

PREPARED STATEMENT OF HON. ROGER W. JOHNSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. Chairman and members of the committee, it is an honor to have been invited to come before you today to share with you my thoughts on the administration's goal to reinvent our Federal Government with initiatives to adopt more common sense and business-like management principles in government planning and operations, and more specifically, how they relate to the General Services Administration.

As most of you know, this is my first government job after 37 years working in American industry—most of which was in managerial and executive positions—and after my first 100 days, I remain enthusiastic about my role in helping to make our Federal Government work better and cost less.

I have spent most of those years in jobs that have dealt with opening new markets and expanding existing ones; developing new products and enhancing old ones; investing in new technologies that seemed to hold promise while stopping the investment in those that no longer looked attractive; I've had to close factories and offices which were no longer productive while at the same time opened new modern facilities. In the end, my companies have created thousands of jobs in the process.

I mention this background, not to impress you with my own credentials and not to open a discussion on how government should operate like a business. Government is not business—it has a different mission. But although they each have very dif-

ferent missions, both industrial and governmental processes require planning, organizing, measuring and controlling, and when looking at the whole process, I am confident that there are lessons to learn and improvements to be made.

In my view, the National Performance Review process and its resulting recommendations have given us the best chance to get beyond the broad generalities, analyze the specific processes in detail, and in the context of governing, make the appropriate changes that will result in our government working better and costing less.

The GSA has a particularly unique and disproportionately important role in the process because almost all of its activities and responsibilities have to do with the operating side versus the programmatic side of government and, of course, the NPR process focuses on operations.

As I mentioned earlier, the processes of planning, organizing, measuring, and controlling are generic to both private and public sector operations, and I used these procedural pieces to review the plan of GSA. In a company, the most important planning document is the budget—it is the financial expression of a plan—and so I started reviewing GSA's budget, and here is where my education began.

"What is our budget?" I asked officials. "Two hundred-ten million dollars for fiscal year 1994," I was told! This did not pass my "test of reasonableness", because I knew we employed approximately 20,000 people; were responsible for over 7,500 existing Federal buildings, as well as the acquisition of new ones, and that we purchased most of the non-defense products from pencils to PCs. Two hundred-ten million dollars in that context seemed much too small.

So, I asked our financial people to go through the details. The resulting analysis is attached as Exhibit A. Let me briefly outline what I found and its relevance to our subject today.

First, I found that we sold, or charged, other agencies nearly \$10 billion for rent and products. The costs of these sales were about \$5.4 billion, which left a so-called margin of \$4.6 billion. Where did that go? Well... approximately \$4 billion went to cover all the expenses of GSA, which still left a positive cash flow of about \$564 million. But it seemed that the cost for buildings already approved for fiscal year 1994 exceeded the amount already in the building fund by \$767 million, and therefore we needed an additional \$204 million—on top of the \$564 million to cover that. That left us with a deficit of \$204 million.

Then, having a background in running high technology industries, I asked about all the computers for which the Brooks Act gave GSA procurement responsibility to oversee? I was told that we delegated much of that responsibility to Federal agencies. How much did they buy? Approximately \$25 billion! Are they doing a good job with this money? We think so. How do you know? I guess we really do not know... but we are still responsible. What else have we delegated? Some of the Multiple Award Schedule, or MAS, purchases, credit cards, and a few other things.

The sum of these delegations, plus the cost of the building and construction in progress, plus the cost of running the agency actually add up to \$58 billion of costs and expenses for which GSA is responsible—quite a different picture than \$203 million when we are looking for areas of improvement.

Why is this type of analysis needed? Because now, as we work with the NPR teams, not only can we see where the big areas of financial responsibilities are—within real estate and procurement—but we can begin also to identify specific areas that, if changed, could yield big savings and improved service.

For example, GSA charges other agencies \$4.8 billion in rent, but our rent costs and payments for principal, interest, taxes, and insurance on financed properties are only \$2.3 billion. That is over a 50 percent margin! I would have loved to have had margins like that in some of my businesses! The margins on other purchased products and computers directly under our control are smaller—but they are not bad.

The concept of cross-charging or inter-divisional charging that funds 98 percent of GSA activities was introduced in private industry to provide business units or divisions of larger companies with as close to their own profit and loss and balance sheets as possible. Obviously the logic is that this exercise will drive them to optimize their profitability.

Although this funding mechanism is widely practiced in private business, even the most sophisticated companies can be—and have been—burned in the process. This results when the cross-charging—usually referred to as allocations—becomes so complex that the origins of the costs and expenses become lost. This, combined with the fact that in most cases those assigned the costs have little or no real effect on them, leaves very large elements of cost essentially uncontrolled. A very good recent example is at IBM, where reportedly corporate allocations were so complex that not only operating management, but top management lost control.

If this can happen in private business where real profits or losses are at stake and cash must come either from profits or private capital markets, then it is clear what happens in government, no matter how well-intentioned managers are. In the case of GSA, the use of allocations is very troublesome because the prices charged are not subject to the market disciplines resulting from competition.

The "margins" are used for two purposes: 1) to cover the operating expenses of the agency and 2), for the Federal Buildings Fund. Since in the main, the so-called revenues are not subject to competition, and in the case of the rental rates, we have the classic case of inelastic prices, leaving little incentive to reduce costs.

Automatic progressions in revenues and costs that are included in forward budget plans tend to further compound the problem, as non-competitive prices and increased costs are programmed to increase year after year, regardless of market conditions. This cycle has been particularly true for Information Systems equipment and services.

The current system has resulted in some positive changes within GSA, but there remain far too many complaints about the way GSA performs its mission, and even GSA employees are frustrated by the system and want change. Our challenge at GSA today is to focus on the costs and expenses over which we have responsibility and assure that we have adequate plans, measurements, and controls—especially when authority is delegated—to ensure proper oversight. Plans, measurements, and controls are prerequisite before any delegation can occur.

This same objective is central to many NPR recommendations, particularly those concerned with streamlining real estate and procurement, and using market mechanisms and dynamics to achieve radical improvements to both. The GSA will become a non-mandatory source of supplies and services, but remain or become the provider of choice to customer agencies. We will be their preferred business partner and easy to do business with, while empowering them to accomplish their missions more effectively. Today, we have a number of reinvention laboratories underway that hold great promise for future improvements. But again, we will assure that adequate plans, measurements, and controls are in place.

While many of these initiatives will evolve over time, and the results will not be immediate, other NPR-inspired proposals are clearly on our fast track. Among the most dramatic are our proposals to fundamentally restructure the real property program under the Federal Buildings Fund (FBF). GSA officials are already implementing the following NPR recommendations for the Federal buildings program:

1. *Declare a time out to review approximately 188 new buildings projects*, including prospectus-level leases, repair and alterations projects, and new construction. The NPR recommends, and GSA supports the call for "no net new office space" acquisition. It is not a freeze; it is not a suspension action. It is merely a logical extension of the President's efforts to streamline the Federal Government. Therefore, last month GSA regional offices were directed to review public buildings initiatives across the country to identify projects where savings could be realized and possible alternative acquisition arrangements could be used to save taxpayer dollars. Included in this review is an unprecedented partnership between GSA and the Administrative Office of the U.S. Courts to work toward paring construction costs of new Federal courthouses. This "rolling review", as I have said, will take from three to six months, and I will make my recommendations to the Congress as each project review has been completed.

2. *Change the character of the Federal Buildings Fund to finance the cost of alterations and repairs—not new construction—and change the rental rate to reflect dynamic market conditions in the commercial real estate market.* We propose to modify the rent rate structure to reduce the overall amount that our customer agencies pay for the space and services they receive. The intent of the new rate structure is to establish very competitive rates what will attract or encourage our customers to remain in GSA-controlled space. Rent will finance the costs of building operations, debt service, and repairs and alterations, but will not provide for Federal construction. This change will result, we think, in a decrease of about \$400 million in projected rent revenue. Agency budgets could be reduced significantly as a result, with savings used to finance the President's priorities.

3. *Establish a "portfolio manager" philosophy to replace the current transaction based operation, and develop a long-term strategic planning process* that incorporates asset management principles used in the private sector for Federal buildings to present Congress with objectives, goals, and plans to effectively house Federal workers and activities at the lowest long-term cost to taxpayers.

As the Federal Government's capital asset manager, GSA will propose the method of asset acquisition that satisfies customer requirements at the lowest long-term cost to the taxpayer. The best long-term cost solution, however, can generally be identified best by allowing market conditions at the time of procurement to deter-

mine whether a specific space need should be met by purchase, construction, lease purchase, capital lease, or operating lease. Accordingly, we are investigating and discussing a variety of authorizing and appropriating mechanisms to accomplish this.

4. *As a tool to aid effective long-term strategic planning and management of Federal buildings, establish a capital budget* that distinguishes between operating costs from long-term investments.

Capital budgeting is a tool commonly used in the private sector and by a majority of the states. It is not used in the Federal Government. Since the earliest days of this nation, we—and others before us—have been using what is commonly known as a “unified budget” to run this country. Now, I respect tradition, but when we operate with a budgetary process that does not distinguish operating from capital funds, we are clearly not helping ourselves with our responsibility to manage our nation's affairs when we deny ourselves rudimentary and widely accepted accounting tools.

The government should ensure that there is no budget bias against long-term investments. The budget should recognize the special nature and long-term benefits of investments in fixed assets through a separate capital budget, operating budget, and cash budget. The separate capital budget will explicitly show expenditures on fixed assets and the costs or savings versus other alternative forms of acquisition. Poor choices of capital investments and the means of acquisition are currently costing taxpayers millions of dollars each year. Another major benefit of capital budgeting would be the very clear distinction between capital proposals and operating expenses. This change would also budget for fixed assets more consistently with the way they are treated financially, thus facilitating the integration of budget and financial information.

The bottom line is this: We are not serving the taxpayers well by managing their money with an obsolete budget. I am certainly not saying that the adoption of a capital budget will erase our country's annual deficits and long term debt. I do believe, however, that by using standard accounting procedures like separating operating expenditures from capital investments, we can all define more clearly this nation's goals and needs, and we can explain more rationally to the American taxpayers what we are doing with their money.

Combining enhanced asset management tools with the flexibility provided in capital budgeting will allow GSA to establish a Federal building asset acquisition policy based on the following points:

Customer agencies will develop and justify their space acquisition requirements in terms of location, size and type of space, and provide them to GSA.

GSA, as asset manager, through our budget formulation, appropriation, and long-range planning process will *analyze the economic and market alternatives* for each agency's requirements.

GSA will propose the *method of asset acquisition* that represents the lowest long-term cost to the taxpayer and satisfies customer requirements.

GSA will *continually review* its current lease portfolio to determine if previous decisions were in the best interest of the taxpayer in light of current market conditions.

Based on this review, *GSA will propose the optimal acquisition strategy* that may result in higher short-run appropriations required for purchasing capital assets that will save taxpayer dollars over the long-term.

Added to our role in reinventing the Federal Government's public buildings program are GSA's contributions to procurement reform. I think we can all agree that the current procurement system is burdensome and costly. Comprehensive legislation incorporating suggestions by the NPR report and Members of Congress is being formulated and will be introduced in the Congress shortly. The guiding themes of procurement and other reforms will be to bring the procurement rules and regulations much closer in line with the realities of today's markets. This is particularly true as it relates to Information Systems products and services. Additionally, the reforms will stress customer focus and satisfaction; expanded choice; less regulation; competition; quality and value, and greater use of technology to expand electronic commerce.

Shifting the procurement process from one that is based on endless paperwork and hand-offs to one that uses emerging technologies as tools to broaden electronic commerce within the Federal Government has been widely discussed as a way to reform the present system. Electronic commerce here, and its expansion will allow the Federal Government to both decentralize and centralize the procurement process—decentralization will help an agency like GSA serve its customers better at the regional level, while centralization will allow for price reductions through bulk purchases and simplified invoicing and inventory control. While the expanding role of

electronic commerce holds great promise, we must caution against thinking that buying more computers will solve the problem by itself. If nothing is done to reform the procurement process first, then buying more computers will only add greater efficiency to a bad system.

The problems with the government procurement process lie not so much in the fact that the fundamental objectives of the Brooks Act, for example, are wrong, but that the hundreds of ensuing interpretations and resulting rules and regulations have lost touch with the rapid and continuing changes in industry. In the last several years, every dimension of the computer, or Information Systems, industry has changed several times. For example: Product cycles in the industry have been reduced from years to months; costs have been dropping 20 to 40 percent a year, while product performance has been increasing 20 to 40 percent a year; fierce competition has driven dozens of companies out of the industry; pricing changes—in a downward spiral for 10 to 15 years—are sometimes made daily; most products and software are created where function—that is, the end result—specifications are all that is needed; distribution channels have been extremely broadened; and sophisticated and effective “partner shipping” technologies are based largely on trust and faith.

It is our job to take each of these realities and adapt our procurement process to take advantage of them so that the Federal Government has cost-effective, ready access to the best products, services, and Information Systems technologies in the world.

All of this activity within industry has driven prices down, helping the Federal Government buy more than ever before. In fact, Federal Government expenditures for information technology—including hardware, software, operations, and maintenance—has increased from \$22 billion in FY 1991, to \$23.7 billion in FY 1992, to \$25 billion in FY 1993. In spite of this investment, the government's attempt to integrate information technology into the systems supporting its operations has produced mixed results. Much of this spending is to maintain large legacy systems that rely on old technology and that are only now slowly being replaced. For new technology investments, money spent in FY 1993 can buy 50 percent more hardware with 50 percent greater performance than we bought in FY 1991. We have not taken advantage of this dramatic potential, and it is certainly not because we did not spend enough money. This leads to the conclusion that something is wrong.

One of the things I have noticed in the area of procurement is that the government has contracting officers. In business, they are called buyers. Each has the same goal—to purchase quality products at the best price—but the methods by which they achieve the goals are different. We must allow government contracting officers to act more like buyers in the private sector by allowing them to spend less time complying with regulations and more time researching products and pricing so they can negotiate more effectively with suppliers.

We must allow more flexibility in government contracts to reflect rapid changes in the markets. When I ran Western Digital in California, worldwide market forces caused us to change our prices frequently—sometimes once a day—and we had to react to the changes or risk losing business. In the government, contracts are locked in for a year or more, so that when prices change, we cannot adjust our schedules accordingly, and so it is not surprising that sometimes our schedules do not list products at the best price.

So, changing the way the government buys goods and services will be an on-going process. We need to retrain, or rather re-educate, Federal contracting officers so they become more like buyers. We need to change mindsets in Federal offices that monitor procurement activities to allow for greater flexibility and yes, allow for employee mistakes. One central tenet that I have carried throughout my career in business and that I now bring to GSA is that people are honest, and they want to do a good job—they want to have pride in what they do. As a manager, I have had to admonish employees for gross errors, but I have never taken action against an employee for making an honest mistake, or because he or she found a way to accomplish a goal, but did not follow proper procedures. I do not penalize people for trying. But right now, Federal employees are afraid to take risks for fear of being penalized for mistakes. I believe we need to change the system to encourage more creativity and risk-taking in our Federal workforce, while at the same time demanding accountability among the employees. But if we demand accountability, we must give employees the tools, such as training, to accomplish goals. Since I have been here, I have seen great promise in the minds and work of Federal employees; unfortunately, it is seldom allowed to flourish because the system discourages real initiative.

Both the real estate and procurement reforms I have outlined today will take time, and the results will be periodically measured by evaluating customer satisfaction and the bottom line savings to the taxpayer—in short, we must measure re-

sults, not process. Our customers at GSA are Federal agencies, and under my leadership at GSA, we will find ways to improve our customer focus by instilling value-oriented thinking among our employees. We will stop measuring our success as the sum total of having followed every rule and regulation, and instead reward employees for delivering value to our customer agencies. Only when we have delivered goods and services to customer agencies to their complete satisfaction can we proclaim success. One way we are improving on this outreach to agencies is by proposing the establishment of GSA account representatives for agencies so that an agency need only call one person when problems arise, instead of having to call several people in different Service areas as is currently the case.

In closing, I cannot emphasize strongly enough that if we are serious about reform, we must recognize that if we are to carry out this challenge in good faith with the American people, doing it right will take time. We must not fool ourselves or the public into believing that the results of our efforts will happen overnight. I have seen many businesses that fail to follow through on reinvention efforts because too many people expect instant results, and when those results are not immediately apparent, the leaders abandon the effort. Long term vision caves in to short-term pressures. We who are charged with leading our government must acknowledge the fact that, during this reinvention effort, there will be short-term frustrations and mistakes, but we have to focus on the long-term benefits that reform will bring to regaining the trust of the American people in their government.

Thank you again for allowing me this opportunity to share with you my views. I will be glad to take any questions.

EXHIBIT A(1)
General Services Administration
PROFIT AND LOSS SUMMARY
\$(THOUSANDS)
Fiscal Year 1994

Revenue	9,988,469
General Supply Fund (GSF)	2,805,403
Telecommunications/ADP (IT Fund)	1,154,658
Federal Buildings Fund	4,844,347
Carryover plus rescission (PBS)	525,725
External Customer Reimbursements	636,336
Cost of Goods and Services Sold	5,382,812
General Supply Fund	2,141,434
Telecommunications/ADP Costs	936,938
Federal Buildings Fund	2,304,540
GROSS MARGIN	4,583,557
Operating Expenses	
Personnel Salaries/Benefits	996,145
Less Internal Reimbursable Salaries	(119,929)
Depreciation	213,995
Other PBS	1,658,320
Other, GSF/IT Fund	296,350
Other, External Reimbursable Program	604,772
Other Policy/Regulatory (Appropriations)	82,793
Subtotal Operating Expenses	3,732,446
NET PROFIT/(LOSS)	851,111
Less Reserve to RCP (Supply/Vehicles)	113,219
Reserve Contribution (IT Fund)	16,500
From Reserve for Use (IT Fund)	(27,573)
Federal Buildings Fund Reserve for Future Use	184,916
PROFIT/(LOSS)	584,049
Facility Ownership Requirements	(767,961)
Deficit/(Shortfall)	(203,812)
Budget Authority/Operating Appropriations	176,734
Budget Authority/Permanent Appropriations	20,478
Budget Authority/Capital Appropriations	6,700
Permanent/Indefinite Borrowing Authority	—

EXHIBIT A(2)
General Services Administration
FINANCIAL RESPONSIBILITY
\$(THOUSANDS)
Fiscal Year 1994

ACTIVITIES UNDER GSA ACCOUNTS:

Cost of Goods and Services Sold	5,382,912
Operating Expenses	3,732,446
Total Construction Program	6,500,000
Subtotal	15,615,358

FUNDS THAT GSA COLLECTS:

Transportation Overcharge Collect (Net)	9,139
Surplus Real Property Sales (Net)	28,031
Surplus Personal Property Sales (Net)	136,900
Outlease of Government-Owned Space	7,000
Recycling Receipts	1,500
Pay Telephone Commissions	1,700
Energy Rebates	8,500
Subtotal	192,770

MECHANISMS PUT IN PLACE BY GSA (REVENUES):

Travel Management Center Rebates	7,800
Travel Charge Card Rebates	30,519
IMPAC Charge Card Rebates	TBD
Contract with Collection Agencies	27,200
Subtotal	65,519

PROGRAMS MANAGED BY GSA:

Multiple Awards Schedules (Supply)	2,400,000
Multiple Awards Schedules (IRM)	1,973,200
Airline City Pairs	847,000
Freight Transportation Services	198,200
Travel Management Charge Card	2,717,000
IMPAC Charge Card	645,006
Real Estate Schedules	1,000
Subtotal	8,781,406

COST AVOIDANCES DUE TO GSA PROGRAMS:

Real Property Utilization Transfers	50,000
Personal Property Utilization Transfers	1,150,000
Real Property Donations	32,000
Personal Property Donations	640,000
Value of CIC Public Service Air Time	6,000
Subtotal	1,878,000

GSA DELEGATED AUTHORITIES:

IRM Delegation (note)	21,890,209
Real Prop. Disp. Delegations (DOD)	8,800,000
Supply Schedules—Department of Veterans Affairs	1,000,000
Subtotal	31,690,209

TOTAL GSA FINANCIAL RESPONSIBILITY**58,223,262**

NOTE: The IRM Delegation amounts exclude GSA telecommunications/ADP costs and amounts for IRM Multiple Award Schedules, to avoid double counting.

General Services Administration
PROFIT AND LOSS SUMMARY
 Fiscal Year 1994 Estimates
 \$(THOUSANDS)

Revenue	9,866,489
General Supply Fund (GSF)	2,805,403
Telecommunications/ADP (IT Fund)	1,154,658
Federal Buildings Fund	4,844,347
Reimbursements & Other	1,162,061
Cost of Goods and Services Sold	5,382,912
General Supply Fund	2,141,434
Telecommunications/ADP Costs	936,938
Federal Buildings Fund	2,304,540
GROSS MARGIN	4,583,557
Operating Expenses	3,732,446
Contributions to Reserves (Net)	287,082
NET PROFIT (LOSS)	584,049
Facility Ownership Requirements	(767,961)
Deficit/Shortfall	(203,912)

General Services Administration
FINANCIAL RESPONSIBILITY
 Fiscal Year 1994 Estimates
 \$(THOUSANDS)

ACTIVITIES UNDER GSA ACCOUNTS:	
Cost of Goods and Services Sold	5,382,912
Operating Expenses	3,732,446
Total Construction Program	6,500,000
Funds that GSA Collects	192,770
Subtotal	15,808,128
PROGRAMS MANAGED BY GSA, SUCH AS:	
Multiple Awards Schedules, Airline City Pairs, Travel Management and Charge Cards, Real and Personal Property Transfers and Donations, etc.	
Subtotal	10,724,925
GSA DELEGATED AUTHORITIES:	
IRM Delegation	21,890,209
Real Prop. Disp. Delegations (DOD)	8,800,000
Supply Schedules—Department of Veterans Affairs	1,000,000
Subtotal	31,690,209
TOTAL GSA FINANCIAL RESPONSIBILITY	58,223,282

Mr. STENHOLM. Thank you.

Next we will hear from Lorraine Green, Deputy Director, Office of Personnel Management.

Ms. Green?

**STATEMENT OF HON. LORRAINE A. GREEN, DEPUTY
 DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT**

Ms. GREEN. Thank you, Mr. Chairman and members of the committee.

I am pleased to be here today to review the actions that the Office of Personnel Management has already taken to implement the recommendations made in the Vice President's Report of the National Performance Review. With your permission, I will enter my entire statement for the record and just read the major highlights.

Mr. STENHOLM. Without objection.

Ms. GREEN. When I say I am pleased to be here today, there is some irony because I come before you to represent an agency whose mission is bound to change significantly as we reinvent government. Yet I am convinced that as we implement the NPR recommendations, the Office of Personnel Management will have a clearer mission and will be better equipped to assist Federal agencies than ever before.

More important, I am confident that the Federal Government as a whole will be able to serve the taxpayers of this Nation more effectively as a result of the process begun by the National Performance Review.

I said that OPM needs a clearer mission. By that I mean that OPM in the future will leave personnel operations to Federal agencies, but will be more of a leader in identifying, facilitating solutions to, and preventing problems in Federal human resources management. We will be a consultant and a partner with Federal agencies, not a micro manager.

At the same time, however, we will continue to hold agencies accountable for adherence to broad, fundamental principles of merit, diversity, and equity. We will help agencies build internal accountability systems, monitor their achievements through government-wide statistical indicators, and maintain an ad hoc investigative capability at OPM.

With this vision in mind, we at OPM have already begun carrying out the changes recommended by the Vice President. Many of these changes also require action by Congress to assist not just OPM, but all Federal agencies in eliminating unnecessary work and refocusing on the needs of our customers.

For example, we have forwarded to Congress the proposed Federal Workforce Restructuring Act, which will greatly assist Federal agencies in managing the changes that the reinvention process will require of them. The proposal will eliminate narrow restrictions on training of Federal employees, and in addition, allow agencies to offer incentive payments to help achieve necessary reductions in the size of our work force by voluntary means.

Other legislative initiatives we will be developing, in consultation with the National Partnership Council, are aimed at making the Federal hiring and classification systems more flexible and making additional pay flexibilities available to agencies.

In addition, we are going to be improving performance management in the Federal Government, and helping agencies deal with poor performers more effectively.

We can also do more to humanize the Federal workplace without sacrificing quality or efficiency of customer service. OPM has worked for years to make the entire Federal Government a more family-friendly workplace. There are some additional specific steps recommended in the NPR report that we will be advancing. The government must continue to improve in this area if it is to com-

pete for the most talented employees in the future. Along with the General Services Administration, we will be asking Congress to repeal provisions that make it difficult for agencies to provide telecommunications and administrative support for employees who are in telecommuting arrangements.

Another legislative recommendation in the NPR report, reauthorization of the Federal employees' leave-sharing programs, has already been enacted. And there is much more that we can do administratively also.

We anticipate the President will soon be issuing an Executive Order urging the adoption of flexible, part-time and job-sharing work schedules for all Federal occupations and encouraging telecommuting arrangements where appropriate. We also plan to revise our regulations early next year to allow Federal employees to use a portion of their sick leave to care for sick or injured family members.

One of the NPR recommendations that has received a lot of attention is to abolish the Federal Personnel Manual. We have well under way a project to review the entire manual to identify which portions can be totally eliminated and which should be retained in a different format. This work will be conducted with full participation of stakeholders.

Most of the initiatives I have described so far reflect the new emphasis on OPM's role as the facilitator and consultant for Federal agencies. OPM also has an important leadership role to play in customer-oriented Federal human resources management. And some of these initiatives are described in my prepared statement. They demonstrate that our efforts to increase the efficiency of our operations, to prevent errors rather than having to correct them after they occur, and to improve service to our customers.

We are on the threshold of great change. Never has there been such a comprehensive evaluation of the effectiveness of government by people who take the responsibilities of government so seriously. Findings of the NPR show clearly how much work needs to be done if we are to fully meet our obligations to the American people.

We at OPM recognize that being part of this change is an opportunity, not a burden. We have a large role to play in making the Federal personnel system a more useful tool to Federal agencies. And in accomplishing this goal, we will also make the civil service a better investment for the taxpayers of this country.

I hope and fully expect that the initiatives I have described for you today are only a first step in a continuing process of renewal.

Thank you very much.

[The prepared statement of Hon. Lorraine A. Green follows:]

PREPARED STATEMENT OF HON. LORRAINE A. GREEN, DEPUTY DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. Chairman and members of the committee: I am pleased to be here today to review the actions that the Office of Personnel Management (OPM) has already taken to implement recommendations made in the Vice President's report of the National Performance Review (NPR), as well as our plans for the future. There is some irony in saying I am pleased to be here, because I come before you representing an agency whose mission is bound to change significantly as we reinvent government. Yet I am convinced that, as we implement the NPR recommendations, the Office of Personnel Management will have a clearer mission and will be better equipped to assist Federal agencies than ever before. More important, I am confident that the

Federal Government as a whole will be able to serve the taxpayers of this Nation more effectively as a result of the process begun by the National Performance Review.

I said that OPM needs a clearer mission. By that, I mean that OPM in the future will leave personnel operations to Federal agencies, but will be more of a leader in identifying, facilitating solutions to, and preventing problems in Federal human resources management. We will be a consultant and partner with Federal agencies, not a micromanager. At the same time, however, we will continue to hold agencies accountable for adherence to broad, fundamental principles of merit, diversity, and equity. We will help agencies build internal accountability systems, monitor their achievements through governmentwide statistical indicators, and maintain an ad hoc investigative capability at OPM.

With this vision in mind, we at OPM have already begun carrying out the changes recommended by the Vice President. Many of these changes also require action by Congress to assist not just OPM, but all Federal agencies in eliminating unnecessary work and refocusing on the needs of our customers.

For example, we have forwarded to Congress the proposed "Federal Workforce Restructuring Act," which will greatly assist Federal agencies in managing the changes that the reinvention process will require of them. This legislative proposal would eliminate some narrow and outdated restrictions on training of Federal employees. In addition, it would allow agencies to offer incentive payments to help achieve necessary reductions in the size of our workforce by voluntary means.

Employee retraining will be increasingly necessary if we are to create a multi-skilled workforce that can adapt to rapidly changing technology. Many employees will have to be prepared to change fields and specialties in the future. Greater flexibility in training will be essential to prepare employees to participate in tomorrow's workforce. Current law imposes unnecessary restrictions on training for new assignments and limits the ability of agencies to select the most effective and economical sources of training. The legislation we have proposed will eliminate these restrictions.

The second part of the "Federal Workforce Restructuring Act" offers separation incentives, or "buyouts," to accomplish downsizing as much as possible through voluntary resignations and retirements. These incentives have very effectively reduced employment levels at the Department of Defense, where incentive payments are authorized under the National Defense Authorization Act for 1993. Other executive branch agencies urgently need this tool to help them restructure.

Other legislative initiatives we will be developing, in consultation with the national partnership council, are aimed at making the Federal hiring system more flexible so that agencies are not hindered from hiring applicants they believe can do the job effectively. One of these changes will allow Federal agencies to establish their own recruiting and examining programs. This will involve abolishing central registers of applicants and standard application forms.

We also plan to simplify and reduce the number of different types of appointments, eliminate the 120-day limitation on details, and introduce some flexibility in the use of qualification standards when agencies have identified candidates who clearly can do the job even though they may not satisfy all of the generic qualification requirements. Too often in the past, we have burdened managers with overly restrictive qualification standards that have sometimes eliminated very capable candidates. This must and will change.

We will also be working with the national partnership council on legislation to remove most job classification criteria from the law, to allow agencies to establish "broad-banded" job classification systems in lieu of the current rigid 15-grade system, and to eliminate current restrictions on demonstration projects so that agencies can more readily experiment with alternatives. These changes will also eliminate OPM's role in policing agencies' classification decisions.

Additional pay flexibilities will be available to agencies that choose to remain under the current 15-grade general schedule. These agencies will be allowed to set initial pay at an amount other than a fixed step rate and to experiment with different within-grade pay progression schemes, such as basing progression within the grade on acquisition of specific skills.

We are going to be improving performance management in the Federal Government. Congress recently enacted, and the President has signed into law, another bill based on an OPM proposal, the Performance Management and Recognition System Termination Act. This new law implements another NPR recommendation by terminating the governmentwide performance management and recognition system, which was widely considered ineffective. We are now developing legislation that will permit broader changes in performance management, by allowing Federal agencies

to design their own performance management programs. The design and implementation of these programs will be subject to collective bargaining.

Agencies will also be authorized to design their own incentive award and bonus systems to improve the performance of entire organizations as well as of individual employees. As part of this effort, we will be encouraging agencies to stimulate high performance through productivity gainsharing programs.

At the same time, we must help agencies deal with poor performers more effectively. OPM is preparing legislation to reduce the time it takes to terminate Federal employees for cause. Meanwhile, we will be eliminating OPM regulations governing internal agency grievance and appeal procedures, as we develop training programs in cooperation with the Equal Employment Opportunity Commission on Alternative Dispute Resolution (ADR) methods. We intend to encourage agencies to make greater use of various options for resolving employment disputes informally. We are collecting, compiling, and sharing with agencies examples of successful ADR techniques and programs. Next year OPM will conduct conferences on ADR to share knowledge, skills, and experience within agencies on this subject.

We can also do more to humanize the Federal workplace without sacrificing quality or efficiency of customer service. Although OPM has worked for years to make the entire Federal Government a more family-friendly workplace, there are some additional specific steps recommended in the NPR report that we will be advancing. The government must continue to improve in this area if it is to compete for the most talented employees in the future. Along with the General Services Administration, we will be asking Congress to repeal provisions that make it difficult for agencies to provide telecommunications and administrative support for employees who are in telecommuting arrangements. Another legislative recommendation in the NPR report—reauthorization of the Federal employees' leave sharing programs—has already been enacted. There is much that we can do administratively, too. We anticipate the President will soon be issuing an executive order urging the adoption of flexible, part-time, and job-sharing work schedules for all Federal occupations, and encouraging telecommuting arrangements where appropriate. We also plan to revise our regulations early next year to allow Federal employees to use a portion of their sick leave to care for sick or injured family members. Other OPM initiatives include a training module for managers and supervisors on using family-friendly programs, and conducting outreach to agencies to help them implement programs that enable employees to balance their responsibilities to work and family.

All of the program areas I have mentioned so far are currently addressed in the Federal personnel manual, which instructs Federal supervisors and managers on how to hire, pay, evaluate, reward, and discipline their employees. One NPR recommendation that has received a lot of attention is to abolish the manual. We have well underway a project to review the entire manual to identify which portions can be totally eliminated and which should be retained in a different format. This work will be conducted with full participation of stakeholders. As part of this process, we are exploring potential uses of electronic media and other formats that would allow us to update essential guidance to agencies more frequently.

Most of the initiatives I have described so far reflect the new emphasis on OPM's role as a facilitator and consultant to Federal agencies. OPM, as I noted at the outset, also has an important leadership role to play in customer-oriented Federal human resources management. I would like to mention just a few highlights.

In June of this year OPM inaugurated a new service allowing job seekers to file a job application directly with our computer database in Macon, Georgia, by using a touch-tone telephone and a toll-free number. This service is currently available for nursing jobs, for which there are chronic shortages of qualified applicants. This service greatly simplifies the application process and enables Federal agencies to compete more effectively for qualified candidates.

Last May OPM launched an initiative to help disabled workers find suitable employment, by linking recipients of social security disability benefits with employers. "Project Able" is a partnership among OPM, the Social Security Administration, and State vocational rehabilitation offices that places Federal employers in direct contact with social security recipients who wish to return to work.

OPM has designated one of its retirement claims processing branches as a "reinvention laboratory." This component is recasting itself as a self-directed work team. Through intensive training, the team will be fully responsible for turning out accurate retirement cases on a very timely basis. Under this arrangement, the supervisor's role changes to that of coach, facilitator, and team member. We will measure the team's success by comparing its timeliness and accuracy to historical data for the team in its more traditional configuration and also to data for comparable organizations not participating in this experiment.

These are a very small sample of the initiatives we have undertaken to increase the efficiency of our operations, to prevent errors rather than having to correct them after they occur, and to improve our service to customers.

Finally, as part of our efforts to assist the President and Vice President in fostering a culture change within the Federal Government, we are looking at ways to strengthen the senior executive service as an agent of long-term change. With this goal in mind, we are reviewing curricula at the Federal executive institute and our management development centers. We also intend to encourage mobility of executives both within and between agencies with a view to what will benefit not only particular agencies, but the government as a whole.

With the National Performance Review, the Federal Government is on the threshold of great change. Never before has there been such a comprehensive examination of the effectiveness of government by people who take the responsibilities of government so seriously. The findings of the NPR show clearly how much work needs to be done if we are to fully meet our obligations to the American people. We at OPM recognize that being part of this change is an opportunity, not a burden. We have a large role to play in making the Federal personnel system a more useful tool to Federal agencies. In accomplishing this goal, we will also make the civil service a better investment for the taxpayers of this country. I hope and fully expect that the incentives I have described for you today are only a first step in a continuing process of renewal.

Again, I appreciate the opportunity to be here today. I will be glad to respond to any questions you may have.

Mr. FRANK [presiding]. Do you anticipate that the package is going to have some of the statutory you need? Will statutory changes from either/or both of you be included in the package we are going to be getting?

Mr. JOHNSON. Yes.

Ms. GREEN. Yes.

Mr. FRANK. Is it extensive? What would be the statutory changes we would look for?

Mr. JOHNSON. In our case, they will be those involved in both the real estate operation of the government and procurement. The extensive—the effect, I hope, is extensive, Mr. Chairman. I am not sure whether the words will be extensive as well. I hope not.

Mr. FRANK. Ms. Green?

Ms. GREEN. In our case, it would be some of the classification and staffing and pay initiatives.

Mr. FRANK. Okay. I have no further questions.

Let's go to Mr. Cox, who was here first.

Mr. COX. I would like to welcome my constituent, Mr. Johnson. I will note his job now is almost exactly the opposite of what it was before.

As the head of Western Digital about 10 years ago—correct me if I am wrong—you started out with about 700 employees. In fact, I think I have the figures here. Eight hundred employees. When he left, Western Digital was a Fortune 500 company with 7700 people.

I think the object now is not to increase the size of the Federal Government in the same way that Western Digital grew over that period of time.

I will start with Roger Johnson, if I might, and remark that your testimony concerning the accounting for what GSA spends reminds me of my own first experiences going through the budget. It is true not only for GSA but also for other Federal agencies, including the Department of the Treasury, that the budget shows that they don't cost anything at all, that in fact we made money on these things, and we could probably solve the deficit crisis by creating more such agencies—and that is because we have this quaint accounting cus-

tom of calling these "undistributed offsetting receipts," and things like that.

You found, in fact, that in that way about \$5 billion was covered up. You don't have a proper income statement to look at. I noticed that you were told that the difference between what actually goes on at GSA, and what was reported was \$210 million. And your own deficit figure was \$204 million. Was this close enough for government work?

Mr. JOHNSON. Yes.

Mr. COX. Six million dollars, in context, probably is worth over-looking.

You went on to say that you were surprised that so much of what GSA is responsible for under the Brooks Act, particularly with respect to computer purchases, about which you know a great deal, was delegated, and that the amount of delegation was \$25 billion; is that right?

Mr. JOHNSON. It is done in a couple of categories, Congressman. The sum would be 21, and some portion of another \$7 or \$8 billion. So as close as I can get to it is between \$25 and \$38 billion.

Mr. COX. As a policy matter, it seems to me we have a threshold question to address, and perhaps you are deep enough into the GSA now to have an opinion about it. Should we be moving to decentralization of computer purchases, or should GSA take a firmer grip of the responsibility that at least statutorily it already has?

Mr. JOHNSON. I think, Congressman, we should be doing further delegations of the transactions and the implementation of computer procurement, design, implementation after we make very sure that we have, relationships with suppliers, measurements, controls, guidelines, and assurances that delegation doesn't become abdication of responsibility.

So it is, yes, however, after we get control of what has already been put out there.

Mr. COX. When Vice President Gore visited Safi Qureshey at AST, he surprised him by telling him that AST has to come out with a new product line once every 9 months, because that is how quickly technology changes. If we follow the Vice President's recommendations and loosen the strictures on agency personnel deciding when they need new equipment, will we find ourselves in a position where government employees decide their equipment is outdated, which it might well be, but it is only a year old?

Mr. JOHNSON. Not at all, because part of that delegation control, Congressman, will be two things. One will be arrangements with your help, because we will need legislative changes here that will allow the agencies to make their procuring decisions much quicker in a much more efficient way, with lower costs. So the process will move them faster, right now, than delegating, but they still have to go through the same process.

The product rights, the product introduction cycles are different from product life. We are introducing products sometimes twice a year. Safi at AST, maybe one and a half times a year that has nothing to do with how long they live. At the same time we introduce them fast, because we are improving the reliability, they actually live a lot longer. The brand-new computer that comes out

today does many things yesterday's couldn't, but that doesn't mean yesterday's is useless.

So it is part of this measurement and control, we want to make sure an agency, ours and others, has a plan of how they are going to cascade the usage of what it is they had already bought, as well as the new thing they are going to buy. I think there we will find we may need to buy much fewer new things if we smartly reapply those which we already have.

Mr. COX. Well, in the interests of time, I would like to switch to Ms. Green and just ask questions in one area, and that is the employee buyouts that are planned.

Why is it that the Federal Government is willing to pay \$25,000 to buy out an employee, in other words, to get them to leave their job, and we are not eliminating the position? My understanding is that we will only do that half the time, and the other half we will just go right ahead and hire somebody else into that same job, making this a very expensive proposition indeed.

Ms. GREEN. Congressman, we have allowed the agencies to have the flexibility based on their budget submissions as to whether or not they will be able to backfill those positions. In order to increase our attrition rate—our attrition rate is very low now, people are not leaving—we have to encourage people to leave voluntarily, and the incentive is the way we feel we would be able to increase that voluntary separation of employees.

The Office of Management and Budget has to approve each agency's buyout plan, so each agency's plan will include how many positions they think they can backfill, if any. So it may be a case where some agencies would not be able to afford to backfill any of those positions that are vacated.

Mr. COX. The Director and Deputy Director of OMB were here and testified this morning that overall, the plan is to delete only one out of every two buyout positions. Did they tell us wrong?

Ms. GREEN. The legislation states that agencies would have that opportunity, but it would have to be within their budget marks, what they could afford in fact, the incentives that they will be offering to personnel would only be to the level that they feel they could offer those incentives. So they have to come up with their own internal plans.

Mr. COX. On the assumption that what the Director and Deputy Director told us is accurate—and that is, they want to eliminate one position for every two buyouts—what is the intellectual rationale for that? Why would you not eliminate two positions for every two buyouts?

Ms. GREEN. Well, you could in some instances. I think it was just to give the agencies flexibility. If they have emergency situations where they are experiencing a serious shortage of people in certain categories of positions because of the number of voluntary separations—not only because of the buyouts but other, normal attrition—by abolishing all the vacated positions, you don't give them flexibility to recover from that if there was an emergency-type situation where they had to fill some of those positions. So that is the thought process behind that.

Mr. COX. I will just ask this one last time, and yield to the Chairman. The \$25,000 buyout payment operates on what kind of aver-

age salary? For calculation purposes, what did you assume would be the average annual salary of someone who would be bought out at \$25,000?

Ms. GREEN. Yes, the maximum is \$25,000. And we don't anticipate that many of those would be getting the \$25,000. Probably around \$17,000 would be the average payment that would be paid out. There is a formula, the severance pay formula, which would be utilized in this case. It has to do with the number of years of service, basically.

Mr. COX. What does the \$17,000 buyout payment correlate to in terms of annual salary?

Ms. GREEN. I am not sure about the annual salary. It is more based on years of service. I could get you the annual salary, but the computation—

Mr. COX. I think the answer may have just arrived over your left shoulder.

Ms. GREEN. About \$36,000.

Mr. COX. All right. In other words, roughly a 50 percent of annual salary buyout.

It strikes me, unless you are using an exceedingly high cap rate, that it is tough to earn that back. It is a very expensive payment. If we are not eliminating the position, then we are just putting someone right back in at \$36,000 a year.

Ms. GREEN. Not necessarily. Persons who leave who reach retirement age, even if they retire early, are pretty high up in the steps so you could rehire somebody at an entry level and save on a similar position if you did backfill it.

Mr. COX. I yield back. Thank you.

Mr. FRANK. Thank you.

Mr. Stenholm.

Mr. STENHOLM. Since the reduction in the Federal work force is intended to be permanent, does the administration also have a plan for reduction in Federal office space?

Mr. JOHNSON. The proposal in NPR and some of the recommendations we made before that came out says that. In view of that, we have no need for any net new office space as far as we can see. We are now, as part of our review process, going through region by region and taking a look at what office space exists and where is it. An awful lot of it is in rental space, annual space, some of that due to some of the budgeting approaches that we used.

We will take a look at what the agencies' employment plans are, and in some they are going to be down, and we will come back to the appropriate committees with a long-range plan for office space that will net significant savings I believe. That will be part of the capital budgeting process.

We may well come back and ask for increased authority to purchase that in the long term. However, the net cost to the taxpayer will be significantly reduced. As leases expire and as we can buy buildings more cost efficiently, we will take care of that, and that will also match the office space with the reduction in forces.

So to start with, nothing new. And the plans, as we go out, will be collapsing the space to match the employment levels.

Mr. STENHOLM. GAO has testified that there exist disincentives to dispose of unneeded or underperforming property. Do you agree

that there are such disincentives? If so, what are they, and do you have a recommendation?

Mr. JOHNSON. I don't know what the disincentives are. There are no incentives to do that right now because there is no benefit to an agency which gives up space and, therefore, the tendency is to hold on to it because, who knows, they might need it at some point in the future. We are trying to change that——

Mr. STENHOLM. Would that not be a disincentive?

Mr. JOHNSON. Certainly. We are trying to change that because we will be moving much more to an asset and portfolio management concept where we will be understanding what space, again, they need, what kind of employment plans they have, what are the alternatives in different cities and try to come back to the Congress with a program that makes sense for real estate in general, not necessarily driven only by specific transactions.

In that process I think we will build into it incentives for people to come forward or build into it ways we can identify ourselves excess space in other Federal agencies.

Mr. STENHOLM. I have one final question. I chaired a hearing yesterday in the Agriculture Committee in which one witness alleged very forcefully that there is a tremendous amount of unnecessary, expensive contracting out in Agriculture. We have heard this in the Department of Energy for quite some time but this is still the first time I had heard that from Agriculture.

Do either one of you have any information in this area that would shed some light on that?

Mr. JOHNSON. We are suspicious of some of the contracting out, and we are taking a look at it. We are suspicious in the fact that we were told that some of that was done to achieve FTE targets as opposed to looking at it from a financial standpoint.

One of the other benefits I think in the NPR report is that we are proposing that agencies not disregard their employment levels, of course, but be given the opportunity and a responsibility to manage the numbers. I think that will tend to fix that. We are back looking at some of those contracts, and we will see that if it doesn't make financial sense that we will change them.

Mr. STENHOLM. That is certainly my own feeling. If we can contract out and save money it makes sense, but for other reasons——

Mr. JOHNSON. Just to meet an FTE target may not make sense.

Mr. FRANK. Mr. Cox, do you have any request?

Mr. COX. Yes, I do. If the Chair would permit, I ask unanimous consent to submit for the record and also for Mr. Johnson written questions from Lamar Smith of Texas.

Mr. FRANK. Without objection. And if anybody else wants to submit anything, there is no objection to that either. So everybody in the pool.

[The questions and responses follow:]

QUESTIONS SUBMITTED TO HON. ROGER W. JOHNSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION BY HON. LAMAR S. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS, AND RESPONSES TO SAME

Question: What is the total spending controlled by GSA? Please breakdown (according to object classification, agency, and budget function) as follows: direct appropriations; paid via agencies; and expenditures which ADP oversees

These should be projections for FY 1995 and outyears or the most current estimates available.

Response. Using fiscal year (FY) 1994 as an example, the General Services Administration (GSA) will have revenues of almost \$10 billion, as shown in the attached "Profit and Loss Summary," exhibit A(1). These funds are directly controlled in that they flow through GSA's accounts.

As shown in the second "Financial Responsibility" attachment, exhibit A(2), however, GSA actually exercises financial responsibility over Federal programs that total in excess of \$58 billion. This includes programs managed by GSA, such as multiple award schedules and charge cards, as well as programs executed under GSA-delegated authorities. Comparable information is not available beyond FY 1994 because the President's FY 1995 program is now being developed within the executive branch. GSA is also not able to categorize these data by object class or budget function.

The President's request for FY 1994 direct appropriations for GSA was \$203.4 million, a relatively small but vital part of overall financial operations that provides oversight of Agency programs. The nature of customer funding is not known, but much of it is no doubt in the form of appropriations to those agencies.

As shown on Exhibit A(2), activities under GSA accounts plus funds that GSA collects total \$15.6 billion. The remaining functions, about \$42.6 billion, are executed by other agencies under their own accounts.

The total amount for Automated Data Processing and telecommunications, or Information Resources Management (IRM) activities, is estimated at \$24.8 billion. This is the sum of entries shown on the exhibits for IRM Delegations, Multiple Award Schedules (IRM), and IRM activities under GSA accounts.

Question: How much of the National Performance Review's savings will go through GSA handled accounts? Again, these should be broken down by object classifications, agency, and budget function.

Response. GSA provides real property, goods, and services to customer agencies on a fully reimbursable basis. Many of the process changes recommended by the National Performance Review (NPR) will give agencies greater freedom of choice and drive GSA to become more competitive as a provider of choice. This greater flexibility may result in cost savings to them and lower revenue to GSA. It is not possible at this time, however, to forecast to what extent this will occur, and the draft NPR reports do not reflect an estimate.

As previously noted, GSA has identified in exhibit A(2) \$58 billion of FY 1994 costs for which it is responsible. To the extent possible, the Agency will leverage these market areas to reduce costs to agencies and ultimately the taxpayer. While we cannot approximate the impact of our efforts at this time, NPR inspired proposals are on GSA's fast track, including: a time out to review approximately 188 new building projects in concert with NPR's recommendation to acquire no net new office space; a review of the Federal Buildings Fund rent rate structure; establishing a portfolio and real property asset management philosophy that focuses on long-term strategic goals; and pursuing capital budgeting as an effective tool for strategic planning that distinguishes between operating expenses and long term capital investments.

GSA has a number of other initiatives at the direction and support of the President that will streamline our organization and reinvent the way we do business. The savings and cost avoidance from these efforts could be substantial—especially in future years.

Question: How much of the object class 30s spending go through GSA?

Response. In the FY 1994 President's budget, program and financing displays for GSA accounts showed \$449.6 million in obligations for object class 31, equipment, and \$57 million for object class 32, lands and structures. This reflects transactions under all of GSA's accounts. We do not have an object classification break for funds that do not flow through GSA accounts.

Question: What is the average length of GSA-handled contracts? What percentage of these contracts must be renegotiated each year?

Response. GSA awards approximately 570,000 contracts each year, with values ranging from small sums to billions of dollars, for a wide variety of supplies and services. The length of the contract term varies, depending on the type and nature of the contract and on the existence of authority to contract in advance of appropriations. GSA has statutory authority to enter into multi-year contracts for certain items, specifically: for providing information technology hardware, software, or services for periods not in excess of 5 years under certain circumstances (40 U.S.C. 757); for providing inspection, maintenance, and repair of fixed equipment (e.g., elevators, heating and air conditioning equipment) in Federally-owned buildings for periods not in excess of 3 years (40 U.S.C. 490); for providing utility services for periods not

in excess of 10 years (40 U.S.C. 481); and for acquiring leasehold interests in real property for periods not to exceed 20 years (40 U.S.C. 490(h)(1)). In cases where GSA does not have multi-year contracting authority, we typically contract for a period of one year, but often include options to extend the period of performance so that the contract may be extended on an annual basis for up to four additional one-year periods—or a total of 5 years. In some cases, contracts are for shorter periods to satisfy one-time needs or for seasonal-type services. The majority of GSA contracts do not require annual renegotiation.

Question: What are the estimated savings from the NPR's recommendation that the GSA's procurement monopoly be ended?

Response. There are no estimates for savings resulting specifically from agencies having greater freedom to purchase goods and services from sources other than GSA.

We do expect better customer service and lower costs, though. The NPR found that, in private industry, monopolies provide poorer service at higher prices than competitive companies; NPR believes the same to be true for public monopolies. When public "entities are forced to compete, they have no choice but to improve service delivery, reduce inefficiency, and control cost. It should be noted, however, that GSA is a mandatory source of supply/service in only a narrow range of procurements, and recent trends have been away from monopolization.

GSA is also well underway in implementing other changes to procurement activities, including: maximizing the use of commercial off-the-shelf software instead of pursuing costly customizing efforts; establishing a new Government travel card contract that could substantially reduce costs over 5 years; partnering with other civilian agencies to enhance the use of purchase cards for small purchases; testing a new simplified "touch tone" ordering system that is form-free and accessible 24 hours a day, 7 days a week; enhancing GSA's ordering system via personal computers and establishing an 800 number; reforming and testing new ordering procedures for multiple awards schedules; working aggressively to change Government-wide Federal Acquisition Regulations from rigid rules to guiding principles, and cutting back internal regulations; and moving quickly to develop and implement electronic bulletin boards for real-time access and facilitate price competition among suppliers for the benefit of customer agencies.

Mr. FRANK. So, Mr. Franks?

Mr. FRANKS. Mr. Chairman, thank you.

Mr. Johnson, I have been looking at the issue of Federal fleet management. It has been quite an eye-opening experience.

I have discovered that the Federal Government has some 375,000 vehicles, excluding all the Postal Service vehicles and, in fact, GSA has the second largest fleet just next to the Defense Department with 135,000 vehicles under your jurisdiction. The cost of the entire government fleet is now over \$1 billion annually, and I know there have been efforts over the course of recent years to try to get a better handle on the management practices of the fleet.

And in the Consolidated Omnibus Budget Reconciliation Act of 1986, COBRA, there was a requirement in that budget that the agencies comply with a circular developed by OMB that was aimed at trying to generate some standards that we could apply in identifying better management practices.

As you are undoubtedly aware, that hasn't significantly been honored. It has been found that only six agencies out of 20 that have been looked at by GAO have actually conducted any kind of study, and only one is in compliance.

I have had an opportunity to look at these circulars, and I couldn't get through the first 10 pages—I was so very confused. It was the most confusing document I have ever seen, other than my car insurance bill, I suspect.

I am wondering about your views on this entire issue. NPR addressed it, I know, and GAO is sort of critical of all that has been done, largely indicating that there has been little improvement that

they can identify in terms of fleet management practices. I think we all share that goal, and maybe we can piggyback where Mr. Stenholm was coming from for a minute. Maybe there are some examples of contracting out that are improper and haven't benefited the taxpayer at all.

But as we think about the need to reinvent government and rethink the way this government has always done things, coming from the private sector, are you rethinking this entire area?

Mr. JOHNSON. In the first hundred days I have taken a look at the fleet practices in a very brief review. We will go back at it, but my impressions, from what I reviewed, told me that it was not the highest priority among some of the other opportunities that I had in front of me. It appeared to me that the data showed, the finances that I saw, that it was quite effectively managed.

It showed that we were purchasing cars at a much lower rate, unlike some of our computers that could be done commercially. It showed that the recovery or the trade in that we were getting from used cars was conversely higher than was being achieved elsewhere. And the full management and utilization of the cars was reasonably well tracked.

I didn't get a good answer, although they said studies had been done. And I will go back at this and say, why are we doing it at all? Why don't we just go to some agency who is in the business of buying lots of cars and renting them or go to a multiplicity of such people who are in that business. Could they do that better than we do it because that is their business?

I was told there was a study done a few years ago that proved that we couldn't. When I go back—we did it more effectively than they did. I am suspicious of that study. When I get a chance in the next hundred days we will go back and start at that point.

Mr. FRANKS. I understand that one of the problems with the study, whose conclusion was that the government does it better than the private sector entity might, came in the way in which the bid specifications were written.

Mr. JOHNSON. I haven't even looked at the study. You may be right.

Mr. FRANKS. Apparently, it was so convoluted in fact not one private company indicated they could deal with the contract in the way in which it had been written. So I would urge you to take a different look at it.

I am curious. When you were at Western Digital, did you folks have any company cars?

Mr. JOHNSON. We were—no. Yes. But we were given a certain amount of money and told go get the best deal you can get. No central fleets. Central fleets, central airlines, central airplanes, central a lot of things, each one in my view is suspicious, and we will go look at it. If it may prove there are some things you can do centrally in a government or a business better than others.

The burden of proof should be, I think, prove to me is it really better or, conversely, why isn't someone already in that business specifically for that purpose? Why aren't they more efficient than we are?

Mr. FRANKS. I would point to an example in the private marketplace. DuPont, which had an enormous fleet nationwide, contracted

out to a fleet management service their operations, and there was a savings of nearly \$19 million. I think that is pretty considerable, and it bears examination how it was that they concluded through direct fleet management they could reduce their costs.

I am told, moreover, that benchmarking and right-sizing are not currently a part of the fleet management processes in the Federal Government. Benchmarking the Federal Government, looking at other institutions of similar size and discovering those business practices which allow for the most effective management of those private sector fleets, that benchmarking doesn't take place in the Federal Government. We just sort of go ahead and do it.

And that right-sizing has not been looked at in an aggregate way. It has been looked at in some small agency pilots. I think this is an area that cries out for better management and I think we need a better opportunity to generate some savings for the taxpayers.

Mr. JOHNSON. It sounds like you are further up on the curve by a long shot than I am. If you don't mind, we will come back to your staff and try to get the benefit of data you already have.

Mr. FRANKS. I appreciate that.

Mr. Chairman, if I may ask Ms. Green.

Ms. Green, I recall that as part of the House budget that was passed in this body there was a schedule for a reduction in the number of government employees at the Federal level but in conference that provision didn't survive. The NPR then came out with their recommendation of 252,000 in terms of a goal for a reduction in the work force.

I read with some interest the press accounts of your testimony yesterday. I am wondering if there is any additional information that you can share with us today that would help us to know how OPM would come to manage the goal that is established in the NPR?

Ms. GREEN. The press accounts today leave out one very important thing and that is the fact that I was asked about how the 252,000 would be spread by agency and what OPM was doing to spread that amount as far as the incentives were concerned. How many employees in each agency would be allowed to have incentives? And what I stated was that the 252 was not broken down by agency and that each of the goals of the NPR would, if implemented, add up to approximately this goal of 252,000 positions.

What we intend to do is give the agencies the tools to assist them in reducing their work force on a voluntary basis so we don't have any involuntary separations from service.

Mr. FRANKS. Are you confident that that figure is a realistic one and that practices can be put into place within the various agencies of the government to ultimately attain that 252,000 number?

Ms. GREEN. Yes, I am, and that is over a period of 5 years, and I am very confident that we can achieve that.

Mr. FRANKS. Is that an operational objective of OPM?

Ms. GREEN. No. The operational objective of OPM is to give the agencies the tools that they need to reduce. We have some internal objectives that we have to reduce our own agency and the other approximately 60 agencies of the government. The tools that we

would be able to give those agencies is an operational objective so that the reduction can take place within that time frame.

Mr. FRANKS. I am new here. Maybe you can help me with this. Is it OMB's role then, as an operational objective, to attain that number and you are a tool through which OPM—OMB will get that done?

Ms. GREEN. Yes. The budget streamlining and the incentive plans will all be approved by OMB.

Mr. FRANKS. Thank you, Mr. Chairman.

Chairman SABO. We have two votes coming. I am just curious what your time schedule is for both of you.

Ms. GREEN. I am fine.

Mr. JOHNSON. I am fine until about 4:30.

Chairman SABO. Okay. We will come back.

Earl, do you want to ask some questions now? We probably have 5 minutes or so before we go.

Mr. POMEROY. Yes. Are you done?

Mr. FRANKS. Yes.

Mr. POMEROY. Yes.

Chairman SABO. We will go another 5 minutes. Then we will go—and then we will go vote. And there are two votes. So we will come back.

Mr. POMEROY. Some comments and some questions.

Mr. Johnson, first of all, I commend you particularly for your philosophical approach that we have tended to micromanage ourselves right into oblivion when it comes to creatively and effectively maximizing efficiencies that we can get a hold of by unleashing our employees to make some of the management decisions that ought to be made. I think that following that will get us a long ways toward making—toward establishing some substantial improvements in management generally.

And, Ms. Green, I also commend you particularly for tackling some issues that are quite difficult. I believe in general we have a Federal work force we can be very proud of. Yet, within it, we certainly have some dead weight that is simply so difficult to remove through personnel actions that we tend to simply leave non-productive employees in place rather than go through the hassle of terminating them.

I previously was an agency head and have been up to the State Supreme Court in personnel actions so I have some sympathy for mid-level managers wrestling with those types of decisions.

Where are you relative to the Federal Personnel Manual? Is it your goal to update it, to make it more flexible, eliminate it or what?

Ms. GREEN. The goal is to eliminate the Federal Personnel Manual. We have been—we at OPM have been meeting with the various agency personnel directors and their staffs to go over the entire manual chapter by chapter and see which of the chapters or parts of them should be retained and any other type of format to be used by the agencies to make them more agency specific to allow the agencies to have the flexibility to carry out their program objectives in the least restrictive manner. So we are moving along with that process.

Mr. POMEROY. Generally, are the employees and their organizations cooperating in this effort?

Ms. GREEN. They certainly are. They are very supportive, and it is a collaborative effort. The NPR has set a date of December of 1994 for the FPM to sunset, and we feel that they are on target with that.

Mr. POMEROY. Terrific. I wish you best success in that effort.

Mr. Johnson, the report of the National Performance Review—Chairman SABO. Excuse me.

Mr. POMEROY. Am I taking too long?

Chairman SABO. No. I suspect you would be better if you came back—if you can frame the question after we come back and get a response because we are getting close to 5 minutes and the end of the vote. We will see you shortly.

[Recess.]

Chairman SABO. The committee will come back to order.

And I will yield to Mr. Pomeroy to finish his questioning now, when he comes.

But, in the meantime, I hope I don't ask questions that have been asked before, but, to Ms. Green, I am curious about the management of the severance pay bonus. I read about what is happening at the Library of Congress, and I have to say I think that is probably about the most atrocious way to manage reduction in personnel as one could have.

And I am curious to the degree that you are requiring an agency to centrally plan what type of people—not the type of people but what jobs and the degree that job skills are involved that somebody who maybe isn't quite doing the job that gets to be who we are asking to leave. I am always worried that in these programs people who we want most to keep are the ones who leave. And I am just curious how you are trying to manage that and to the degree that your office is providing guidance to various agencies as they go about this process.

Ms. GREEN. We are providing guidance to the agencies. We have been meeting with them and giving them packages of instructions on how to manage this process. But, as far as the actual identification of positions, by offering the early-out provision along with this buyout, it enables the agencies to have persons who are eligible to retire, first of all, to accept the buyouts, then persons who meet the early retirement requirements, and then persons who want to leave the government service to take the buyout.

All of it is strictly voluntary, but what guides the agencies in making their decisions is the fact that they have a plan—once again, it has to be submitted to the Office of Management and Budget—that lays out their program objectives and their budgetary requirements to run their program given their mission and their goals.

So they have to make some hard decisions on what categories of persons they are going to offer this incentive to.

Chairman SABO. Do they have to do it by category rather than individual? There might well be someone who—who is eligible for retirement who the agency would prefer—would like to keep because they are doing a very important job and doing it well.

Ms. GREEN. They can exclude by category of positions, and they may only have one particular type of a position.

I will use OPM as an example. We have persons who are going to be processing our retirement applications, and we cannot afford to have them leave at this time. So there is going to be an opportunity to keep them there for a period of up to 2 years. They can apply it to the incentive. We can offer the incentive to them, but we can say we cannot afford to have them leave right now.

So each agency is going to vary within their own operation, but, once again, there could be just one or two people in a particular category. But individuals are not supposed to be the basis by which you make this decision at your agency.

Chairman SABO. Is that the right decision?

Ms. GREEN. Each agency director is going to have to justify these decisions to OMB based on their plan for their operation and their performance measures that they have set up, so I think it is. And I think by not trying to manage this centrally and giving the agencies the flexibility to manage it themselves, they will make the right decisions on this.

Chairman SABO. Mr. Johnson. I should maybe ask you this question and not in your role as manager of Federal properties and procurement, but I assume your agency has some goals for personnel reduction. I am just curious how you would plan to manage that internally and how you deal with the question of key personnel who may want to leave and you may want to keep?

Mr. JOHNSON. Well, first of all, we—I have set no specific goal. The administration has set, you know, across the board 12 percent or whatever that number is. But in our case, the—

Chairman SABO. So you do not have a definitive number for your agency?

Mr. JOHNSON. It is at least 12 percent.

Chairman SABO. At least 12 percent reduction.

Mr. JOHNSON. The issue here, and I agree with Ms. Green wholeheartedly, this particular agency has an awful lot of effect, will have a lot of effect on it from the National Performance Review initiatives.

And it will be different in the procurement side probably to the building side. It will be different in the regions and in Washington. Some general conclusions that we have come to is we want to put more responsibility and authority in the regions rather than here in Washington.

We would like to see the Washington operations move towards much more centers of expertise and policy rather than transactions-based, with duplicative oversight and duplicative reviews.

The reduction of 50 percent of the paperwork and regulations will have an effect. So in our case, we are putting together how we are going to run the agency and then we will come from that to where we need the people and where we don't need the people.

I know it will at least be 12.5 percent.

In the performance area, Mr. Chairman, I have come to just realize why it is we have a lot of rules and regulations that won't let us get rid of poor performers. I don't know what this committee can do about it, but it struck me just a few weeks ago that when a person who is poor performing in government—and I am not speaking

here of a person who is malfeasing, stealing, whatever—you must prove they are bad people for them to leave.

And in my experience 99 percent of poor performers are not bad people at all, they are just mismatched in their job or in management. And in industry we have ways to facilitate those people moving without proving they are terrible people.

I would hope that we could move towards those kinds of policies. And that would help as well.

Chairman SABO. I guess I would refer those comments back now to Ms. Green.

In terms of revision, is that something we are going to try to deal with so you don't—somebody doesn't fit that you don't have to prove they are a bad person to sort of put them someplace else?

Ms. GREEN. That is correct. And more of an emphasis is going to be placed on retraining our work force. Mr. Johnson and I discussed this during the break.

There are people who are in the wrong jobs and who could be good performers in other situations, other jobs, other locations, so those are the people that we will be concentrating on.

Once the size of the reduction of the work force is reduced, part of the efficiencies of the work force will be to retrain the persons who are left as needed and hopefully we will end up with a cadre of persons who are good performers and the ones that aren't will have to leave.

Mr. JOHNSON. You know, Chairman, also when people leave, it is my experience it is the most opportune time you have to make substantive change. Even if it is a person who you didn't want to leave, that opens an opportunity to make changes.

And in the government where we have so many things out of whack from a personnel standpoint, we have got an average of "four supervisors per person," for example, that I think both from attrition and people leaving, we are going to open up a lot of opportunities for others who remain to have more interesting jobs, more responsibilities, with better, clearer defined decision processes.

So I don't think at all this should be looked on as an overall evil process. I think it can be quite helpful if we do it in a sound humane fashion.

Chairman SABO. Mr. Pomeroy.

Mr. POMEROY. Mr. Johnson, the question I was beginning before I left to vote involved the savings pegged at \$2 billion over 5 years in the NPR in Federal building and courthouse project savings.

Can you tell me how you are going to arrive at this figure?

Mr. JOHNSON. That was our commitment. It was our best judgment, Congressman, from combinations of all of the areas in which we think we can save money. Some projects that may not be warranted going forward at all, although our first blush is that will not be the majority of the cases.

We will also be looking at alternative ways of acquiring space that is needed. In some cases, those will be coming back with recommendations that we actually purchase or lease-purchase as opposed to operating-lease.

Reviewing the current portfolio of leases and looking at ways to either renegotiate some of those leases or over some time in a 5-year period to take out those leases again with lease-purchases, so

it is our best estimate of the experts in our agencies involved of what the combinations of those savings will be.

I am pretty confident there will at least be those.

Mr. POMEROY. Relative to construction costs specifically on courthouses and Federal buildings that would be under GSA's control, in North Dakota we had one anecdote that I think illustrates there may be substantial room for savings.

We had a Federal Court House approved at something like \$47 million. The first installment was paid, some figure in the range of \$28 million and the people of Fargo were quite clear that they thought that was quite enough to build a courthouse. Myself working with two North Dakota Senators worked to stop the second installment and, in essence, this building will be constructed for approximately 50 percent of the authorized and appropriated expenditures.

This experience led me to offer an amendment to the Federal Court House appropriations cutting 2 percent from the initial authorized amount.

I appreciate very much the fact that you have put a hold on 188 new building projects while you conduct a rolling review. Has that review at this point led you to a ballpark estimate of the amount of savings that might be captured?

Mr. JOHNSON. No, sir. We are in the beginnings of it. We will have the first recommendations probably in a couple of weeks. That is the rolling piece of it.

It is very difficult to put an estimate just on that process. The \$400 million per year is an assumption of all of the processes. That is as close as we can get, but I think there are going to be some substantial savings there without degrading quality and without depriving Federal workers of good housing.

Mr. POMEROY. I agree with you and, in fact, I would challenge you to set a benchmark, a benchmark in the range of 10 percent and shoot for reducing those construction costs by an amount of 10 percent, and I will be giving you an A plus if you can hit that target and may have questions to the extent that you fall below that target, but I would wish that you would put yourself—set an aggressive target for yourself and see what you can do to meet it.

Mr. JOHNSON. I can't necessarily agree with that, but it certainly doesn't insult me, the 10 percent.

Mr. POMEROY. Thank you.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Lazio.

Mr. LAZIO. Thank you, Mr. Chairman.

I had the pleasure of speaking to Mr. Johnson earlier about court complexes and I share my good friend, Earl Pomeroy's, interest, although I have a different perspective.

We out on Long Island have been working diligently to try to get a court complex constructed. We have about 3 million people that are now underserved without a Federal-owned facility. We have a leased facility. That means based on where it is right now, that people who have jury service, for example, may have to travel up to 3 hours to get to the Federal Court complex in Brooklyn which is a far ride from Montauk, if you know the geography of the area.

So we are anxious not just to get that going, but because there is a dire need for it, and secondarily of course because of our recession in the area, we could use those jobs better now than later, although I am sure we are going to move ahead with it.

I am wondering if you could explain what process you are going to go through and what type of rolling time line you might have relative to the approval of these projects?

Mr. JOHNSON. On a time line basis, we said in the beginning, and there is no reason to change that, overall the process will take 3 to 6 months.

However, as we just indicated, we will probably have some recommendations on the first few items, there may be four to ten projects within the next couple of weeks.

We have chosen the projects for review and prioritized them on the basis of their proximity to next major milestones.

If a project was in design and was going to have a contract up for construction reasonably soon and it was of reasonable magnitude, it would be in the top lists. If it weren't going to start for a year or so then, of course, it is near the bottom. The whole thing we should get through in that period.

There are two different processes though that are going on now and one of them has to do with office space. And that is much more of a process of looking at alternatives, do we really need it, et cetera, with the reduction of 250,000—252,000; is that right?

Ms. GREEN. Yes.

Mr. JOHNSON. That says you don't need any new space. We have also been driven by a lot of our rules. We literally rent on an operating basis a lot of space.

So the whole process of review that heads down that path: Do you need it, what is the alternative, et cetera. The majority of the money appropriated, however, is for courthouses and in that case from what we have seen with some exceptions, there probably is not nearly a question of the basic need because many parts of the country are like Long Island.

We haven't had a wave of new court construction in many years. The number of judges have been increasing. The judges' caseloads, unfortunately because crime is a growth industry, or because they have more jurisdiction, are going up. So the issues there run more to the actual costs themselves.

There also aren't many alternatives. We can't go to a city and say, gee, there is a vacant office building, let's put a courtroom in it. That will run much more to the actual cost. In that situation, Ms. Stasch has put together an extraordinarily capable Blue Ribbon Committee made up of the top architects and the contractors and the Administrative Office of the Courts to take a look in a very objective way the whole process that we caused because of our rules and regulations as well as excessive specifications which may drive up costs.

The courts are sitting with us on that and so far it is a very cooperative effort. They have put on the table things which heretofore probably have been—things they didn't want to talk about. We will talk about one judge per courtroom, is that really needed? They volunteered that.

Mr. LAZIO. Will those things be taken into consideration? In our example we have on the county level dedicated land and transferred it to the Federal Government in order that the court complex be built and so that the Federal Government doesn't shoulder the entire burden. And, as you mentioned, the judges have moved ahead expeditiously with the design and they have been flexible, I think, about some of the matters that you just mentioned, judges per courtroom and things like that. Will those be considerations?

Mr. JOHNSON. Certainly. In parallel with this committee which is working on some fairly macro issues, but I expect in a reasonably short period of time they will come back to us with some general guidelines.

In parallel, with that the specific projects are being reviewed in the regions in the same manner that office buildings are. So in your case New York has that task and has a set of specific questionnaires.

As we talked earlier, Julia Stasch and I have both met with the district judges in New York while we were in the city, and we have listened to their views and opinions and we have met with many Federal judges around the country.

They have come to us and we have gone to them. So they will all be considered as we try to make a very solid pragmatic jump.

Mr. LAZIO. Will you be kind enough to share the status of the approval process as it relates to at least that project to my office?

Mr. JOHNSON. Sure. We will commit to the appropriate committees and to the individual legislators that certainly you will be the first to know where we are heading when we think we know where we are heading.

Mr. LAZIO. Thank you very much.

Thank you, Mr. Chairman.

Chairman SABO. Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

The freshman class is joining together in a bi-partisan effort to push for many of the NPR reforms, and I am cochairing the working group on personnel. For 20 years, I was a human resources manager and human resources consultant, and I look forward to putting my experience to work here in the Federal Government. This is something I know easily versus everything we are learning.

So, Mr. Johnson, I don't have to ask you any questions. You can rest for a little bit. My questions are all for the deputy director.

First, I have a comment and a question. As we implement the recommendations, it is really essential that we get Federal workers involved—down at the working level—to come up with some of the solutions and get their input into the process. I am wondering how you plan to solicit that input so that we can have a meaningful dialogue with the people that are actually going to have to carry out the programs?

Ms. GREEN. We have a group, a working group that we are meeting regularly with and it is a group of personnelists from all over the country.

The personnel directors meet on the executive staff level and then we have working groups of their personnel. Within the agencies, they are coming up with recommendations to feed into these working groups so that as we go through it, especially with the

Federal Personnel Manual which, as you know, is the basis for all of our operations, as we are moving towards eliminating that Federal Personnel Manual, the input that the agencies are having is what is guiding us into making those decisions because our goal is to try to make it easier for the agencies to operate. And when we say agencies, we are talking about the employees.

Ms. WOOLSEY. Well, that is part of what I am asking. There were a lot of examples around here today, like fleet management and all of that, and there were examples of waste and ideas where we could cut.

I think that people who are working in the trenches are the ones that already know this. If they are waiting for those of us in Congress to come up with these questions—or the Vice President or you folks, we aren't going to get down to what is really happening. Do you have a way for the suggestions to be solicited, and is there some incentive and reward to make this happen?

Ms. GREEN. Well, we are depending on the establishment in the NPR of the National Partnership Council where the union representatives are going to be partnered with us and we are anticipating that through that mechanism primarily the employees will have their voice through their union representatives.

Ms. WOOLSEY. Okay. Well, that is going to be something that if I were you, I would monitor to make sure it fully happens because it is the folks in the trenches that are going to make the difference.

Now, the National Performance Review report says that if performance measures are going to be taken seriously, managers must have the authority to fire workers who do not measure up, which of course I agree with. It also recommends cutting in half the time required to terminate Federal managers and employees for cause.

I question if cutting the time in half that it takes to fire people is the real issue. I mean isn't it more important that we evaluate the criteria for hiring, promotion, and performance versus just a time line?

Don't we have a lot to do before we are at that point of firing somebody or is that part of it?

Ms. GREEN. No, that is part of it. We do have a lot to do and this has gotten a lot more of the ink, I guess, than some of the other things we are doing. Part of it, too, is the training piece, which I don't want to lose sight of, which is part of that incentive buyout package because some of the managers primarily need to be retrained. The process itself also needs to be shortened.

One of the complaints that we have had from managers throughout the government is that it takes so long once you have decided to take an action, but the piece that you are dealing with before all of that is, yes, probably one of the most important pieces that we want to deal with with the agencies directly to avoid getting to that problem. So you are absolutely correct that it is not just cutting in half the time, it is before you get to that. We are dealing with that entire piece of it.

Ms. WOOLSEY. Well, let's get the message out that this is a full program. It is not just expediting the firing of people without all of the thinking ahead of time.

Ms. GREEN. I understand.

Ms. WOOLSEY. And doing it in an expeditious manner.

One more question, Ms. Green. I represent Sonoma and Marin Counties in California, the two counties north of the Golden Gate Bridge across from San Francisco. I think you must know is in a very high cost of living area, and I am really interested in knowing how the administration intends to deal with locality pay, specifically if rates will be varied as necessary for hiring and for repaying and rewarding good employees, under the NPR recommendations.

I am really worried that the Federal Government is going to lose the best and the brightest if we don't have locality pay. I want to know if you think that the NPR recommendations are enough.

Ms. GREEN. Locality pay along with some of the classification reforms—pay bands and the classification review, would go together as a total package.

As you stated before, some of these initiatives are just viewed separately, but when you put it together as a complete reform movement, I think we would have the ability to attract some of the best and brightest if pay is the issue. I think we will have that flexibility, yes.

Ms. WOOLSEY. Okay.

Thank you, very much.

Chairman SABO. Mr. Smith?

Mr. SMITH OF MICHIGAN. Thank you, Mr. Chairman.

Mr. Johnson, don't relax too much because mostly I would like to talk to you. Maybe, Mr. Chairman, following up on some of your questions, I can discuss a problem we experienced in Michigan when we did early-outs. In Michigan, we ended up losing very qualified people that jeopardized the effectiveness of some State programs.

Is there going to be any latitude for saying to some of those key people, no, we were not going to include you in this early-out option?

Ms. GREEN. There will be the latitude within the agencies to offer the incentive to different categories of persons.

Mr. SMITH OF MICHIGAN. Incentives to stay?

Ms. GREEN. The incentives—

Mr. SMITH OF MICHIGAN. What incentives, to stay?

Ms. GREEN. No, that we are going to offer to leave. As far as retirement, we cannot stop—

Mr. SMITH OF MICHIGAN. You cannot in the early-outs, can you?

Ms. GREEN. Exactly. We have left it up to the agencies pretty much because once a person is retirement eligible under the provisions that we will have established, we can't keep them, but one of the incentives would be if you know we are using this incentive to get people to leave, so if we do not give an incentive to a particular group of people—let's just use an example, a particular personnel group—

Mr. SMITH OF MICHIGAN. Let me just say the problem we ran into is the most qualified people are the ones that most quickly took advantage of the early-out advantages and economic incentives for that early-out because they were most able to go immediately into another job, and so in several instances we really jeopardize the efficiencies of some of the functions of our different departments because of that particular problem, and what I hear you saying is, no, we really haven't addressed this.

Do I hear you correctly?

Ms. GREEN. Well, in some instances, the agencies could possibly have the ability not to offer the early-out to some categories. I know in the past we have done that. I know we are——

Mr. SMITH OF MICHIGAN. Categories, but not individuals.

Ms. GREEN. Not individuals.

Mr. SMITH OF MICHIGAN. Will these individuals be prohibited from coming back into Federal employment?

Ms. GREEN. Yes, they will. The legislation that we have proffered now is for a period of 2 years.

Mr. SMITH OF MICHIGAN. Thank you.

Mr. Johnson, \$200 billion is the amount I think we spend on Federal procurement if you include services.

Are you also coming up with your recommendations and suggestions for changes in the way that we go about purchasing, such as changing something like 3,000 pages of regulations we have now governing how we purchase?

Mr. JOHNSON. Yes, sir.

Mr. SMITH OF MICHIGAN. When will that happen?

Mr. JOHNSON. Oh, I would guess we will have some recommendations because we are working with DOD people as well as NPR people, certain committees. I would imagine it is going to be weeks rather than months.

Mr. SMITH OF MICHIGAN. You think it is going to be weeks rather than months?

I am at least told that Senator Glenn is going to save the introduction of his bill to reflect the administration's needs. Is that bill going to be put forward in the House, or the bill that is already passed out of the House Government Operations Committee, going to be the vehicle of choice if you use such a vehicle?

Mr. JOHNSON. Congressman, I can't speak specifically to the legislation on the Senate side. We are working with groups of people on both the House and Senate, letting them know very specifically the kinds of things we think we need changed——

Mr. SMITH OF MICHIGAN. You think by the end of this month would be your guess that you are going to have the specific recommendations?

Mr. JOHNSON. Those will get converted into legislation.

Mr. SMITH OF MICHIGAN. The specifics are probably what is lacking in everything I can gather.

Let me ask you a question on rent and leasing versus ownership by a Federal Government. Do you consider or do you consider and should we consider the value of the rent that could otherwise be gotten by a Federal Government for the buildings they own as part of the cost of that building when you just try to decide whether to lease and rent or to purchase?

Mr. JOHNSON. I am not quite following the question.

Mr. JOHNSON. If you own a——

Mr. SMITH OF MICHIGAN. If we own a building, is the local going rate for rent considered the value of rental cost for that building?

Mr. JOHNSON. Yes, that is the intent. We believe the current mechanism for determining that number is not what it ought to be, and leads us to determining a number, although it was intended to be market rate, it is not. So we want to propose a shorter inter-

val and different ways of calculating that number to make sure it marks the market more closely.

Mr. SMITH OF MICHIGAN. Do I understand that will be part of your recommendations?

Mr. JOHNSON. Yes, sir.

Mr. SMITH OF MICHIGAN. In the acquisition of purchased items, do you support moving the \$25,000 limit up to \$100,000? Has that been a decision that has been already made in terms of making it easier to purchase items under some kind of a line target figure?

Mr. JOHNSON. Yes, we sure do, Congressman, but in the context of the other controls and measurements that I talked about earlier. I think we have to be careful that we don't talk about delegating without talking about measuring and responsibility. The two have to go together.

So yes, I think we should increase the authority of people to make decisions which they probably make in their own private lives. On the other hand, they need to be doing that in the context of a plan, guidelines, commitments on how much they can save or what they will do, and some measurement to establish how well they performed that delegated responsibility.

Mr. SMITH OF MICHIGAN. Pretty much what I have seen of the efforts so far is how to change the rules and laws to make purchasing—to try to get the best buy, most effectively. Are you also looking at adequate quality versus top quality in terms of identifying need?

And the other question would be, of course, is anybody looking at whether we really need to buy it in addition to the process of how we go about buying it?

Mr. JOHNSON. The first question, certainly.

Mr. SMITH OF MICHIGAN. Thanks, Mr. Chairman.

Mr. JOHNSON. Experience tells me reducing the cost of purchased material, generally when done properly, increases the quality, and increased quality generally costs less. That is not at issue.

It might be—

Mr. SMITH OF MICHIGAN. The hammers and the toilet seats?

Mr. JOHNSON. I am personally nervous about anecdotal things. They are exciting for a few minutes, but may lead us on a wrong path. So I like to look a little bit beyond that.

Some of the provisions that we have now that we would like to change might in fact improve some problems that we have with quality, because I am not sure long term, the cost of long-term ownership is looked at. That is a major quality issue as well.

Mr. SMITH OF MICHIGAN. Thank you.

Chairman SABO. Mr. Herger. Did I get it right this time?

Mr. HERGER. You are close.

Chairman SABO. Herger.

Mr. HERGER. That is all right, Mr. Chairman.

Chairman SABO. I will get it right eventually.

Mr. HERGER. Ms. Green, I want to join in thanking you for coming here. I would like to follow up on some questions that I had earlier this morning for OMB Director Panetta, regarding the Federal buyout proposals. You can tell there is some concern with the manner in which that may be implemented.

Director Panetta was not aware of the fact that in 1988 then-Governor of Arkansas Bill Clinton also enacted a State employee buyout proposal. I might quote from an article you may be aware of, a September 7 article from the Washington Times. I am interested in your comments on this. That article said, "A year after then-Governor Bill Clinton's Arkansas buyout program was adopted, the State saved \$7 million in payroll. However, additional retirement costs amounted to \$13 million. In effect, the buyout cost the State an additional \$6 million."

The Times article further went on to state there were 1,100 Arkansas workers who took the buyout but a year later the State payroll was reduced by only a net 107. In other words, he bought out 1,100 State employees, but he hired back almost 1,000 of those employees.

Just some comments, again from this same article. Representative Lloyd R. George of Danville, a Democrat, described the legislation as "the worst bill that has been passed that I voted for in the last 25 years." Senator Eugene Buchanan, a Democrat from Mr. Clinton's hometown of Hot Springs, called it "absolutely disastrous."

I am interested, Ms. Green, if you are aware of this, and have you considered this Arkansas plan when you crafted our current Federal buyout plan?

Ms. GREEN. No, I am not familiar with the plan, and we did not use the Arkansas plan when we crafted ours. We had been working with DOD considerably, and we have—we helped craft that, and we are using that as a guide.

I think what we are doing is a lot of advance planning. Since this bill was submitted to Congress, we have been working with the agencies and planning how they are going to implement these buyouts. Part of the control mechanism that will assure this is a cost-effective proposal is the fact that OMB has to review their plans, and they have budgetary restrictions as to how many persons they can afford to offer the incentive to.

The other thing that is costly, which we have tried to avoid in our legislation, is the retirement, the unfunded pension liability, because in our legislation we are saying that the agencies have to contribute a percentage, 9 percent, to the retirement fund.

And I think with those types of controls and cost-effective measures in place, I think our plan will be successful.

Mr. HERGER. Again, I am sure you can understand why there might be concern on many of our parts. A plan that just 5 years ago was called by one State legislator who had been there for 25 years, the worst plan that he had supported and voted for in 25 years, this gives a number of us very good reason for concern.

What are the projected savings you have projected specifically from the buyout?

Ms. GREEN. Until the agencies put their buyout plans together, we won't have any estimates, but as soon as they do, then we can share those with you. The agencies are now formulating—doing some advance planning, again, because the legislation has not passed yet, but it depends on who they are going to offer it to in their agencies. Everybody who is eligible is not going to be allowed

to leave. So once again, with the plans they are putting together, we will know then about a cost savings.

Mr. HERGER. Again, this article mentioned that one of the major problems was that the senior people in the State who had the experience of running State government were the ones who retired, so there was a tremendous loss of that expertise with this—yet almost the same number of people were rehired.

My concern is, I would appreciate it if you could get back to me with some specifics on what we feel we will save. I am interested in what your gross savings are projected to be, and what your net savings are projected to be, and what you feel the cost will be. And I would certainly like to urge you to look into this program that was implemented in Arkansas, by then-Governor Clinton, to ensure that we do not implement anything that is close to that here, and therefore come up with anything close to what was again indicated by one Democrat legislator as a disastrous piece of legislation.

Ms. GREEN. We will certainly get back to you on that issue.

Chairman SABO. Welcome back, to the distinguished gentleman, Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman.

People sometimes say, like when we are looking at the health care issue, My God, we are going to have the government do health care? We have as a model Medicare and Medicaid. Then they typically say, tell me one thing the government has done right. That question really bugs me because I do think government has done certain things well, and in other cases not, just as most businesses do certain things well and certain things not.

So my question is, and I don't necessarily expect an answer today, but I would love to know those agencies you consider extremely—this is addressed primarily to you, Ms. Green—those agencies you think are run very well, efficiently, that are models we should be taking a look at. Because I believe they exist, and I would like to be able to say to people, you know, I can tell you a few. This agency does this and it has this number of people, and it accomplishes this task.

And it relates to this whole issue the Vice President is talking about in terms of performance, wanting inspector generals not to focus as much on waste, fraud and abuse, although I think waste and abuse relate to performance, obviously, as does fraud. I don't think they are mutually exclusive.

But I would love it if you in particular, Ms. Green, would be able to tell me some of the agencies you think are well run, above the others. If you know any today, I would love to know that. So I am not asking this in a facetious way.

I would also ask you, Mr. Johnson, as it relates to—since you interface with every government agency, if you become aware of agencies that just stand out, I would love to have you direct a response to my office of agencies that we should look at. I am on the Government Operations Committee and we focus on these issues as well.

One of the comments I heard one of you say, and I know I probably misunderstood or didn't get it in the right context, I heard of four supervisors for one worker, there are four levels. Can you put that in context, or did I hear something totally out of line?

Mr. JOHNSON. What I said or hoped I said was that the data I had seen in NPR and in my own agency here is that there are in the Federal Government between four and five workers for every supervisor. That is a very, very low ratio.

Mr. SHAYS. It is extraordinary.

Mr. SMITH OF MICHIGAN. It is better than the other way around.

Mr. JOHNSON. Yes, it is.

Mr. SHAYS. While that is feasible, it is pretty sad. And one of the things I have learned—I come from a corporate kind of community in Fairfield County. With all the downsizing, the amazing thing that the chief executives tell me is that they become more efficient. And the logic is obviously they don't have that many decision-makers along the way.

I had heard at one time that in some cases it took seven to 12 signatures to get a certain procurement done. Has that been broken down? We have a sense that to get something bought, it takes a lot of people signing off.

Mr. JOHNSON. It sure does.

Mr. SHAYS. Do you have a number for what that is?

Mr. JOHNSON. I think it varies depending on the procurement, but five to 15 wouldn't surprise me at all, depending on the procurement.

Mr. SHAYS. My sense is that that evolves the same way complex tax law evolves. You get a committee that wants tax simplification, then you get a staff that wants to make sure that nobody can cheat the system, and if you continue to watch 60 Minutes and you find out how someone has found out how to beat the system and then they contact us and we make sure that they can't do it, but in the process you screw hundreds of others.

People in charge have to have the courage to let things go wrong once in a while and accept the heat. But the solution to that is just to make it more complex for everyone.

Mr. JOHNSON. In my opening statement, Congressman, I talked about those very same things. If we don't change that attitude, then we can change a lot of rulings and laws and we are not going to get anything done.

Mr. SHAYS. I did hear you make that point. So that is probably where I got the idea.

When you talk about no net new office space acquisition, what troubles me is in some ways it strikes me we should be coming down to reductions. Obviously, the concept of net is good because we need to reduce some and increase somewhere else, but really there should be a net loss of office space, given that we do hope and expect to reduce the number of personnel.

Mr. JOHNSON. There will be. That will take a while because we have contracts. About the only good thing I can think about the rules that have driven us to operating leases is that we do have some operating leases and they do expire some day, and as they do, or we can take advantages of some clauses in the contract and get us out earlier, we will take that into account as we come forward with a long-range plan. But it will come down.

Mr. SHAYS. I renew my request in the beginning, and that is that I just really want to be able to answer people when they say, tell

me something the government does well, because I think people should have faith in their government as well.

And I thank you both for your good work. I just want to say as well, with the individuals in GSA that I have ever come in contact with, they have just been very capable, very responsive, and just very good people.

Mr. JOHNSON. Thank you. I have found that also.

Chairman SABO. Mr. Kasich.

Mr. KASICH. Thank you.

Mr. Johnson, sorry we weren't able to get together before the hearing today. I will look forward to some time in the future being able to sit down on a whole host of issues that we are looking at in terms of privatization of a number of activities. And I look forward to the opportunity to work with both you and with Ms. Green.

At this point, I don't have any questions. I hope your attendance here was useful. I will look forward to an active relationship with you.

I also want to say to you if there is something I can do to push your agenda in a change mode, away from status quo, you call, because I want to help. That is what I am here for, okay?

Mr. JOHNSON. We will call. Thank you.

Mr. KASICH. Thank you, Mr. Chairman.

Chairman SABO. Thank you to both of you for your appearance, your testimony. My apologies for not being here all afternoon, but that happens in the nature of this business. Good luck in your efforts. What you are about is very important.

Thank you.

[Whereupon, at 4:15 p.m., the committee was adjourned.]



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